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BULLETIN NO. 12

**B** 1,109,328

# Public Ownership of Railways

with a Chapter on

## THE PLUMB PLAN

By

CARL D. THOMPSON

Price 50 Cents

Public Ownership League of America  
Chicago, Illinois, 1919

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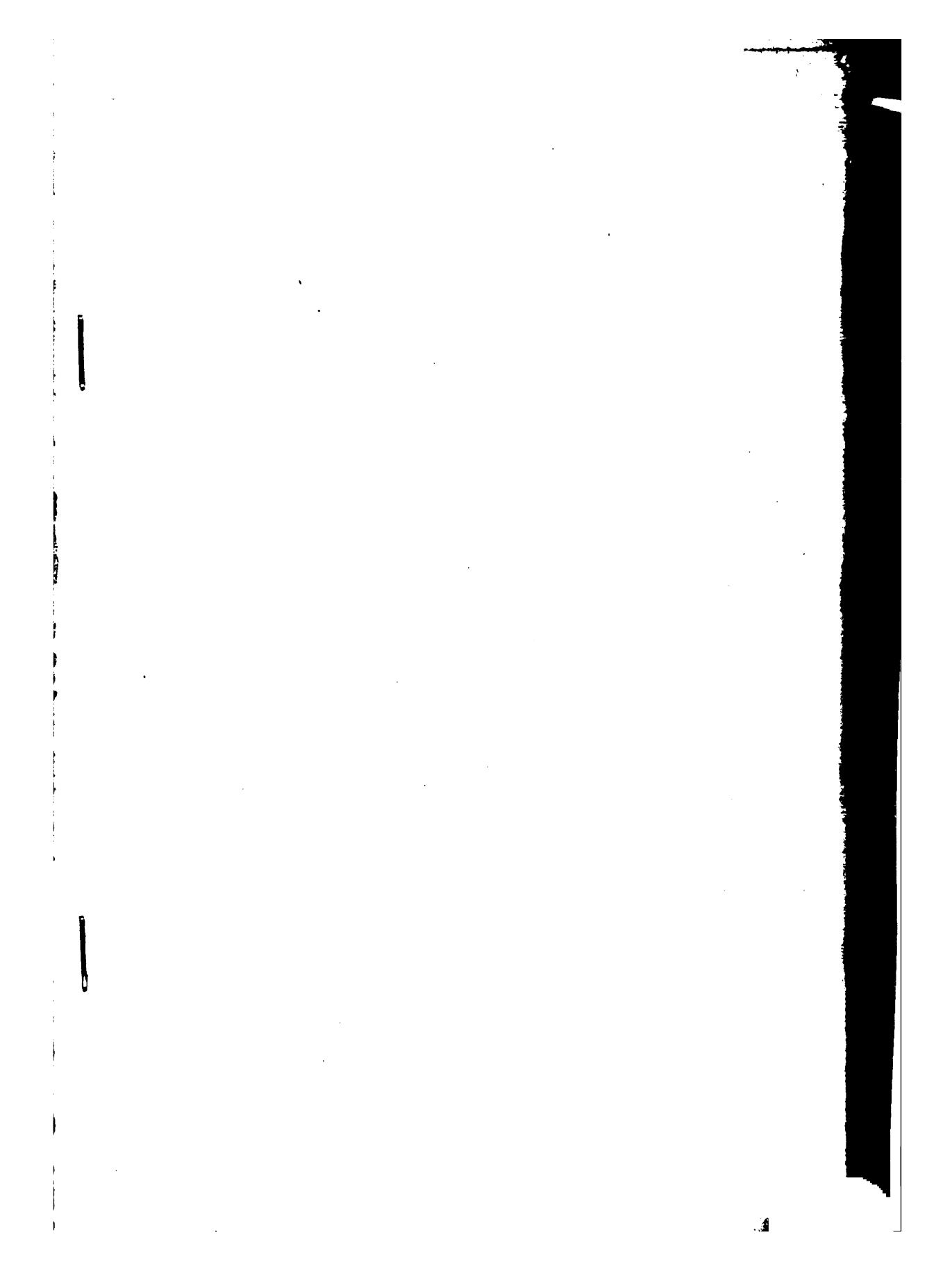
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# Public Ownership of Railways

## PREFACE.

The material in this volume first appeared in 1905 as a special number of a little monthly magazine known as "The Vanguard." It was revised and published as a separate pamphlet with modifications and additions in 1912. Since then our nation has been making history and history has been re-making our nation. We have been making progress in our thought concerning public utilities in general and the railroads in particular.

On the 6th of April, 1917, this nation was rudely awakened by the harsh, stern call to arms, to take its part in the world's greatest war. And when, in response, the nation sought to move its armies and munitions of war it suddenly discovered that its transportation system which had long been falling behind the needs and requirements of the nation's growth and development in times of peace was utterly unable to handle the military situation. Every effort on the part of the private owners and managers to reorganize and bring the system up to the requirements failed until in sheer desperation and driven by the direst necessity of military, economic, industrial and financial considerations the government "took over" and assumed control of the roads.

Whatever may be said for or against the success of the government control of the railroads in this much all must agree, viz: it solved the problem,—it met the situation and the railroads were made to do their part in winning the war. And that was really what the government set out to do—and what private control and management utterly failed to do.

On November 11, 1918 the war came to an end. But the railroad problem is still with us. The owners were soon demanding immediate return of the properties to private ownership and control. Director General of Railroads, William McAdoo, and later his successor, Walker D. Hines, were urging a five year extension of government control. The security holders were demanding increased rates and additional guarantees of their incomes although the government was already guaran-

teeing and paying over \$910,000,000 a year in interest charges alone after investing over a billion dollars of the people's money in rehabilitating the system. Meanwhile the railway employees were demanding increases in wages after increases aggregating over \$600,000,000 a year had already been granted under government control.

And the people were paying the bills in increased freight and passenger rates which were in turn reflected in the increased cost of all commodities and the resulting steady increase in the cost of living.

Obviously this condition of affairs could not continue. By the beginning of 1919 the railroad question in the United States had reached the state and condition of an acute, pressing national problem. A solution must be found.

At this point the fourteen railway brotherhoods — the Engineers, Conductors, Firemen, Trainmen, Carmen, Clerks, Machinists, Electrical Workers, Blacksmiths, Maintenance of Way, Telegraphers, Sheet Metal Workers, Boilermakers and Switchmen, representing 2,000,000 employees and covering practically the entire working force of the railroads of the country came forward with their plan for the public ownership, democratic control, cooperative operation and efficient management of the roads. The plan soon came to be known as the Plumb Plan and was embodied in a bill known as the Sims Bill, which was introduced in Congress during the summer of 1919.

Since then the Railway Organizations backed by the American Federation of Labor to a greater or less extent and by some of the farmer organizations and various civic and reform forces have projected a nation-wide, complete and thoroughgoing organization with organizers, speakers, writers, papers, a press and publicity bureau and every other facility and phase of activity necessary to write the measure on the statute books of the nation and carry the plan through to consummation.

And thus the principles both as to ownership and control of the railroads for which the author and many others — a few at first, but steadily growing in numbers from year to year — have been contending for a quarter of a century now become an immediate and practical, industrial and political issue in the nation. And the little pamphlet we wrote a dozen years ago has been swallowed up in the great current of thought and action of today, as we hope this later one will soon be swallowed up in the actual achievement of the public ownership, democratic

control and efficient operation of the transportation system of the United States of America which we believe will be the greatest single economic achievement of this generation. When that is done, the last edition and the last chapter of this book will have been written.

## Public Ownership of Railways

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### INTRODUCTORY.

The object of this pamphlet is (1) to set forth briefly the arguments which every year grow more imposing and overwhelming in favor of the public ownership of railways, and, (2) to present a definite, concise and constructive plan by which such public ownership may be brought about in justice to the present owners, to the workers and the general public.

The railway system of the United States comprises over 250,000 miles of railways. It is by far the greatest railway system in the world. There is over six times as much mileage in this system as in that of Germany, the next most extensive in the world. The American system comprises nearly two-fifths of the entire railway mileage of the world.

The railway system of a country forms the most vital and fundamental element in its whole economic structure. Upon the railroads more than upon any other single institution or system depends the whole fabric of modern industrial and economic life. And upon that of course the general welfare of the people.

To have in this United States a railway system as efficient serviceable and economical as it is possible to have is therefore of the utmost importance. Public or government ownership we believe has fully and completely demonstrated itself to be in all respects vastly superior to private.

Fifty-four nations already own and successfully operate all or a considerable proportion of their railway systems. Among them are practically all of the leading nations of the world—Austria, Belgium, Norway, Sweden, Denmark, Finland, Switzerland, Germany, Hungary, Italy, Russia, Japan, New Zealand, Australia and a score of others. In fact all but sixteen countries now own their railways, wholly or in part. All but Persia, Turkey, Cuba, Honduras, Paraguay, Salvador, Uruguay, Great Britain, Spain and the United States. These may be called the "backward nations" so far as railway management is concerned.

Furthermore, the change from private to public ownership is going on rapidly. Switzerland completed the nationalization of her railways in 1903. Italy joined the ranks in 1905; Japan and Mexico in 1907; even Greece and Guatemala are in the pro-

cession,—and China too,—all three joining in 1909. And, so far as we know, no nation that has once nationalized its roads has ever gone back to private ownership.

In short the government ownership of railways is all but an accomplished fact the whole world over. It is no longer a theory or a dream. It has been a reality in the experience of many nations covering a period of at least a quarter of a century, and carried on under every form of government, and every condition of people.

And what have been the results? The following are a few of them: (1) The conditions of labor have been improved. (2) Rates have been reduced. (3) The service has been improved. (4) Travel and transportation are less murderous. (5) The railroads are better financed. (6) Vast economies are affected. (7) Railroads are taken out of politics. (8) The general conditions of the country are rendered more stable. We propose to establish these points and put them beyond reasonable dispute.

The other nations of the world have lead the way. The United States should delay no longer. The other nations have made a success of it—all of them in every way. What all the other nations have done, surely America can do. Indeed, we have faith to believe that America can do better than other nations have done. From their experience we in the United States may now derive such valuable information as not only to convince our people of the great superiority of public ownership but also to enable us to embark upon this policy and carry it out with greater success and efficiency than any other nation has been able to do.

And, besides, the greater freedom and elasticity of our American institutions, the greater skill and efficiency of American labor, and the greater resourcefulness of the American people should make our success in this matter much greater than that of any other country.

## Public Ownership of Railways

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### CHAPTER I.

#### THE CASE AGAINST PRIVATE OWNERSHIP.

The private ownership of railways is a failure.

It has been a failure in every other country. It has been a failure here in America. The other countries have already recognized the fact and all the more important ones have either already adopted public ownership or are rapidly doing so.

We do not deny a certain kind of success, a sort of prodigious achievement. It is not hard to make up a great story of the wonderful things that have been accomplished by the private railroads of America. They have spanned a mighty continent; they have built up commerce; developed industry; made cities to spring up in a night; unlocked the resources of the hemisphere, etc., etc.

Let us freely admit all they claim that is true in these respects. But they have been doing other things meanwhile. And they have been neglecting some things that are very essential to the welfare and the healthful progress of the nation.

There is a certain standard of what a railway system ought to do for a people. It has been set now by the public railways in other nations. We are better able to judge of what a real railway success is now. And we do not forget that to whom much is given from them much is reasonably expected.

To the railways of this nation probably more has been given than has ever been given to any single institution in all history before. And they have had opened to them the greatest opportunity and widest possibilities in the world.

Judged by these standards and in the light of these facts we repeat the private ownership of railways is a failure.

Our case against the private ownership and operation of railways in America rests for the present upon six counts as follows:

1. The service is inadequate.
2. It is unsafe.
3. The rates are excessive.
4. They are piling up prodigious private fortunes.
5. They foster fraud.
6. They are financial failures.

These facts are now pretty well established. Whatever else may be said in behalf of the private ownership of railways these six charges cannot be denied.

Viewing our problems as a nation from the standpoint of the general welfare we want adequate, safe service at reasonable rates; we want the diffusion of wealth rather than its concentration: we want equality and justice to all and we certainly want financial rectitude, stability and efficiency. If the private ownership of railways does not give us these things—then, no matter what else they may do, they are a failure.

Let us establish these six counts 

1. **Inadequate service.** In spite of all the wonderful building of railroads, in spite of all the multiplied millions invested in railway equipment, in spite of what seems like amazing enterprise the railroads of this country have not kept up with the development of the nation. The requirements are always in advance of the equipment and service, while now and then the service breaks down completely. Any sudden, though slight increase in demand upon the service and its inadequacy is at once apparent.

This was most strikingly illustrated in the winter of 1907 when the roads were entirely unable to handle the business required of them. At seven primary cattle markets in the west, the receipts of cattle in November of that year showed a falling off of 300,000 head, because shippers and drovers could get no cars. At fifteen grain markets, the receipts for grain showed a decline of 17,500,000 bushels, because of the car shortage. In Montana, mines have been closed because there were no cars to load. And at many places in the northwest people were actually suffering for want of coal because the railroads were unable to get cars to ship it to them.<sup>1</sup> In short, farmers and merchants and the people in general were confronted with ruin and actual suffering because the railroad system of the United States was unable to handle its business.

The complete demoralization of the American railroads was set forth in a strong editorial by no less conservative a magazine than *The American Review of Reviews*, February, 1907. It said,

"The American railroads with all their rich traffic have not kept up to date. Passenger cars have become shabby and obsolete, and old locomotives have been kept in use which ought to have gone to the junk heap. German railroads under government ownership

1. *Ridgeways*, January 26, 1907.

have been kept up to a far better state of efficiency than our American roads. At least 100,000 miles of our railroad systems have become unfit for the ordinary needs of current traffic. The management has brought American railroading into a position of being the most slovenly of all our business organizations, whereas, it ought to be the most precise, methodical and alert."

"No condemnation," they say, "of their failure is likely to be too drastic or to state the facts with serious exaggerations. The failure of the railroads to respond efficiently is due to the fact that the railroad system has been used for making a set of individuals rich at the expense of the country's transportation. It is unquestionably true, that a great part of the recent increase of the capitalization of American railroads does not represent actual expenditure for improving the roads and their equipment, but rather represents the great game of private financiering by means of which a set of men have rapidly become millionaires. They have gotten control of the American railway system, have bled it unmercifully for their own benefit, and the result is that it no longer serves the practical purposes for which railroads exist."<sup>1</sup>

The measure of the inadequacy of the railway system of this country at that time may be judged by what Mr. James J. Hill said. He declare that the rairod companies of the United States must expend not less than \$5,500,000,000 within the next few years, in order to equip and extend the railroads sufficiently for the needs of the country. Such investments in the improvement and extensions of the systems were of course not made. And thus the faults and inefficiencies of the roads accumulated from year to year.

The final breakdown came in the winter of 1917, eight months after the nation had entered the great war. By that time the situation from a military standpoint had become desperate. The Allied nations were calling frantically for troops, munitions and supplies. Millions of men, and millions of tons of supplies and munitions in additions to the usual traffic had Plan and was embodies in a bill known as the Sims Bill, which of years of mismanagement and exploitation, were utterly inadequate, and the private management failed completely in their efforts to meet the situation. At the suggestion of he Council of National Defense a "Railroad War Board" was created made up of the representatives of the railroads and presumably the very best talent that the presidents and managers of the roads could muster. After months of effort on the part of these and other representatives of the private companies it became ap-

1. "Review of Reviews," February, 1907. See also Twnetieth Annual Report of the Interstate Commerce Commission—December, 1906.

parent to all that something altogether more adequate and effective had to be done, and accordingly on December 28, the President, acting under the authority given him by the Army Appropriation Act of August 29, 1916 "took over" the entire system.

Thus every effort on the part of private capital and private enterprise to furnish the country adequate transportation service broke down completely at the most critical moment of the nation's history. How complete this breakdown was, and how desperate the situation has been described by no less an authority than Frank McManamy, Assistant Director of Operations of the United States Railroad Administration.<sup>1</sup> "The railroad machine," he said, had to an alarming extent ceased to function." Every road, terminal and roundhouse in the country was congested with loaded cars, frozen and damaged locomotives, and equipment which every day became more and more hopeless from the standpoint of operation. The amount of traffic handled had fallen to the lowest possible ebb.

On the eastern lines alone there were 180,000 loaded freight cars above the normal number. As a result of the traffic congestion there developed a serious coal shortage so that at one time there were 248 mines idle due to lack of cars. We were short over 410,000 tons in the shipment of foodstuffs in a single month, and 22 per cent of the blast furnaces in the eastern district were closed down in February, and we were threatened with a paralysis of the manufacturing industries of the nation.

Due to the impaired credit of the companies they were unable to secure the necessary capital to make needed extensions and improvements so that private management broke down also upon the financial side. And, finally, it could not meet the labor situation and broke down there also. The increasing cost of living had given rise naturally to insistent demands upon the part of the railroad workers for increased wages. These demands the private companies were unable or unwilling to meet and the nation was threatened with the possibility of a very serious strike at the most critical moment of its history.

We are often told that our passenger service in this country is far superior to that of other countries. Here again the facts are against us. In two respects at least our passenger service is

<sup>1</sup> Address delivered at the Reconstruction Conference of the Popular Government League, Washington, D. C., Jan. 9, 10, 11, 1919. See also Report of Director General McAdoo in First Seven Months of Federal Control, September, 1918.

not only inadequate—it is inferior to that of many other countries. We refer to the speed of our trains and the sleeping car accommodations.

There has been much boasting of the wonderful speed of our American trains. It is an empty boast. Great Britain beats us, France beats us, Germany beats us. We come limping along in fourth place in this respect. "The thirty fastest express trains out of New York showed an average of 45.23 miles an hour; the thirty fastest out of Berlin an average of 45.77 miles per hour; the thirty fastest out of Paris an average of 47.70 miles an hour; the thirty fastest out of London an average of 52.82 miles an hour."<sup>1</sup> These figures are based on a study of the time tables made by the Review of Reviews in 1907, and Mr. Russell in his Pearson's articles referred to below gives elaborate tables showing the speed of trains in the different countries.

So the claim of greater speed is exploded. Now as to the sleeping car accomodations. Mr. Russell in the July 1910 number of Pearson's p. 14 offers his compliments to the American sleeping car. He says. "As a rule, nothing else observed of us by our visitor from abroad creates such an unfavorable impression; even our most sympathetic critic cannot overlook such a significance. Let's be frank and own the disgraceful fact. It is not merely that the American sleeping car is uncomfortable and extortionate; it is so indecent, primitive, rural and jay that our mere tolerance of a device involving such publicities and promiscuities is a reflection on our place among the civilized nations.

"Nowhere else in the world is a woman compelled to retire with no more privacy than the shelter of the same curtain that also conceals a man most often a stranger to her. Nowhere else is she expected to parade half-clad before a car full of men as she struggles to get to a dressing room overcrowded and filthy.

"The whole thing is an abomination. It is as much a monstrous parody upon comfort as it is upon the basic requirements of civilized life.

"Other nations have sleeping cars that provide not only comfort, but privacy and decency. We alone continue to go to bed in public after the manner of the mining camp."

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<sup>1</sup>"Railroad Revolution," by Russel in Pearson's of Feb. 1910, p. 182.

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2. The Service is Unsafe. — The private railway service of America is the most dangerous and destructive in the world.

The slaughter of employees and of passengers is truly appalling. Over ten thousand people are killed and over a hundred thousand people injured by the American railroads every year. From the annual reports of the United States Inter-State Commerce Commission we have compiled the following table. Look at those columns of figures. Just as they stand they are a most gruesome and terrific arraignment of the private management of American railways.

### Railroad Accidents

Number of employees, passengers, and other persons killed and number injured, 1909 to 1916:<sup>1</sup>

Year ended June 30—	Employees		Passengers		Other Persons		Total	
	Killed	Injured	Killed	Injured	Killed	Injured	Killed	Injured
1909 .....	2,610	75,006	253	10,311	5,859	10,309	8,722	95,626
1910 .....	3,382	95,671	324	12,451	5,976	11,385	9,682	119,507
1911 .....	3,602	126,039	356	13,433	6,438	10,687	10,396	150,159
1912 .....	3,635	142,442	318	16,386	6,632	10,710	10,585	169,538
1913 .....	3,715	171,417	403	16,539	6,846	12,352	10,964	200,308
1914 .....	3,259	165,212	265	15,121	6,778	12,329	10,302	192,662
1915 .....	2,152	138,092	222	12,110	6,247	11,838	8,621	162,040
1916 .....	2,687	160,663	283	8,379	6,394	11,333	9,364	180,375
1916 .....	2,941	176,923	291	8,008	6,769	11,791	10,001	196,722

This is certainly a most appalling record to contemplate. But the railroads have an answer. They even claim that the railway service in this country is safer than in Europe. And they submit tables of statistics to prove their contention.<sup>2</sup> But the fatal defect in their statistics is that they have omitted entirely from their computations those who were killed by the railways who were "other than employees and passengers." These accidents which are mainly at grade crossings result in killing as many as 6,000 to 8,000 in a year. And beside they make no reckoning of those who are injured, at all.

And finally their computations are on the basis of the number of passengers carried a mile and the number of tons of freight carried a mile. A better and truer basis of comparison is the passengers carried—for once the ticket is sold or the freight loaded and the equipment put in operation it involves but little additional effort or expenditure to safely transport a

<sup>1</sup> Statistical reports of the Interstate Commerce Commission.  
<sup>2</sup> Encyclopedia of Social Reform—"Railways" p. 1047.

passenger or a ton of freight ten or even a hundred miles than it does to transport it one mile.

In order to get at the relative number of passengers carried and make it the basis for comparison Mr. Russell in his Pearson's articles February 1913, p. 132 has prepared a table which we herewith reproduce:

### World's Record of Railroad Accidents

Country	Year	Passenger Carried	Passenger Killed	Passenger Injured	Employees Killed	Employees Injured	Others Killed	Others Injured	Total Killed	Total Injured	Miles of Line
France	1909	491,936,930	8	283	351	648	333	211	692	1,142	25,017
Germany	1909	1,469,978,000	121	567	533	1,384	338	307	992	2,258	36,152
Gt. Britain	1909	1,265,080,761	94	3,370	372	24,095	570	919	1,036	28,384	23,264
Belgium	1910	193,069,662	11	359	77	535	80	84	168	978	2,931
Austria	1909	241,955,522	34	479	154	2,081	125	301	313	2,861	13,847
Hungary	1910	140,001,000	24	135	140	276	189	162	353	573	12,821
Holland	1909	43,156,000	3	17	20	59	9	22	32	98	2,208
Sweden	1909	53,787,226	6	7	32	161	59	23	97	191	8,366
Norway	1910	13,079,037	1	2	5	14	7	12	13	28	1,831
Switzerland	1909	105,038,662	12	76	39	1,369	25	45	76	1,490	2,875
Denmark	1910	30,231,815	1	2		25	31	26	33	1,487	
Japan	1909	146,973,870	34	262	110	1,355	1,408	600	1,552	2,217	5,292
Algiers											
and Tunis	1909	6,475,597	0	3	10	52	34	39	44	94	2,711
U. S.	1909	891,472,425	253	10,311	2,610	75,006	5,859	10309	8,722	95,626	236,869

Let us analyze these facts. The railroad mileage of the United States is about 42% of the total mileage of the world, or considerably less than one half. Suppose we total the records of all the rest of the world and put it up against the American records. Also let us take the figures for the United States as given by the Interstate Commerce Commission for 1911 being the nearest complete record comparable to those of the other countries. The table will then appear as follows:

### Railroad Wreckage of the World as Compared With that of the United States, 1911

	All Other Countries	United States
Passengers Carried .....	4,199,744,082	997,409,882
Miles of Line.....	352,723	254,732
Passengers Killed .....	349	356 ✓
Passengers Injured .....	5,562	13,433 ✓
Employees Killed .....	1,943	3,163 ✓
Employees Injured .....	32,029	46,802 ✓
Others Killed .....	3,202	6,632 ✓
Others Injured .....	2,757	10,710 ✓
Total Killed .....	5,394	10,397 ✓
Total Injured .....	40,347	150,159 ✓

From this it appears that the rest of the world has approximately 100,000 miles of railways more than the United States;

that it handles 3,200,000 more passengers than we, or over four times as many, and yet our railroads kill every year a total of 5,000 more than they or twice as many and injure a total of over 100,000 more than they or more than three times as many. We kill more passengers and injure twice as many; we kill nearly twice as many employees and injure 10,000 more than they every year.

So that whatever way we look at the matter our railroads are the most murderous and destructive in the world.

This fact is still more graphically shown by statistics of the number of passengers and employees killed by the railroads in the different countries in proportion to the passengers carried. Several such tables have been prepared by different students of the subject. Mr. Russell has one in his Pearson's article (Feb. 1913, p. 132) which we reproduce here:

#### Relative Safety Exhibit

Country	Passengers Killed	Passengers Injured
France .....	1 in 61,492,116	1 in 1,738,293
Germany .....	1 in 12,148,578	1 in 2,592,554
Great Britain .....	1 in 13,458,305	1 in 375,394
Austria .....	1 in 7,116,339	1 in 505,126
Hungary .....	1 in 5,833,375	1 in 1,037,044
Switzerland .....	1 in 8,753,222	1 in 1,382,088
Sweden .....	1 in 8,964,537	1 in 7,683,889
Japan .....	1 in 4,322,761	1 in 560,969
Norway .....	1 in 13,079,037	1 in 6,539,518
Denmark .....	1 in 30,231,811	1 in 15,115,908
Holland .....	1 in 14,385,333	1 in 2,538,588
Belgium .....	1 in 17,551,787	1 in 537,798
Algiers and Tunis.....	NONE	1 in 2,158,532
United States (1909).....	1 in 3,523,610	1 in 86,458

The figures vary from year to year. For example, Denmark's railways killed no passengers in 1903-4, but did kill one in 1904-5. Tasmania killed one in 1903 and Victoria only one to twenty million journeys.<sup>1</sup>

The record of the destruction of life by railroad accidents in this country is simply appalling. Prof. Parsons puts it in a very graphic way. "The Iroquois Theatre holocaust in Chicago stirred the nation from sea to sea with sympathy and horror, but the railroads killed eleven times as many people in the same year as perished in that awful catastrophe. The Johnstown flood and the Galveston horror shocked the sensibilities of the

<sup>1</sup> From the Encyclopedia of Social Reform—see also "Railways, Trusts and the People" by Parsons, p. 444.

world with the terrible sacrifice of human life, yet the railroads of the United States killed last year nearly 20 per cent more persons than the total number of casualties in both those historic calamities, and in addition wounded about ten times as many more. In two recent train accidents reported by the Interstate Commerce Commission (in 1904) more persons were killed than were killed in train accidents by the state railways of Belgium in their entire history from 1835 to 1900."<sup>1</sup>

In France where some of the railways are owned and operated by the government and others are owned by the government and operated by private companies under rigid control it is four times safer to ride on the roads operated by the government.<sup>2</sup>

The private railroads of this country have miserably failed to keep their tracks and equipment up to the standard required for safety. After years of appalling disasters, after the annual murder of thousands and tens of thousands has gone on for decades and after all the strenuous efforts of our government to "regulate" these roads into efficiency and safety the regulators themselves confess their utter failure. In this way: In their annual report of 1910 the Interstate Commerce Commission says (p. 40) "The main thing needed in our judgment is the extension of the use of the block system to prevent collisions of trains."

That was the main thing needed. Had the railroads attended to this main thing? They had not. In the same report the commission says (p. 40) "there has been no large percentage of increase in block signals for several years."

And speaking of conditions of tracks the commission says: (Annual Report 1912) "Knowledge gained from accidents that have been investigated indicates beyond question that with the track and roadway conditions existing upon many railroads in this country the danger of serious derailments is ever present. In one serious derailment an examination of the track in the vicinity of the accident disclosed 906 rotten ties within a distance of 147 rail lengths. Under many of the rails there were as many as 11 bad ties, and under each of 2 rails there were 12 ties so badly decayed and broken as to be totally unfit for service. In many of these ties the spikes were so loose that they were easily removed by hand, the wood having no longer any holding power. The track in the vicinity of this accident was poorly ballasted

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<sup>1</sup> "Railways, T. & P." p. 446; see also Literary Digest, March 2, 1907.

<sup>2</sup> Industrial Commission Vol. IX. p. 154—quoted by Parsons. See also chapter V. of this pamphlet on "Greater Safety" under Public Ownership.

and was unsafe for the passage of trains at ordinary speed. This derailment occurred on straight track while the train was running about 30 miles an hour."

Such was the situation as late as 1912. Some improvement has no doubt been made since then but not enough to materially alter the general contention we are making here. Private ownership and operation fails to provide us safety in transportation. It fails to even come up to the standard set by other nations.

3. **Excessive rates.** As we shall show later on the rates charged by private companies are on the average higher everything considered, than under public ownership. (See chapter VI, sec. 1.) And this for a very natural and inevitable reason, viz., that privately owned roads are and must be operated with private profit as the chief aim in view, while public roads are and must be operated with the public service as the chief aim with profits as a secondary consideration or eliminated entirely as is already the case in our government postal system and in the public schools.

4. **Piling Up Prodigious Fortunes.** Our next count against the continuance of the private ownership of railways is that it is extorting vast unearned incomes, concentrating wealth into the hands of the few and piling up prodigious private fortunes at the expense of the people and to that extent plundering the nation and sapping its economic life.

The net income of the railroads of this country taking their own words for it is enormous. And it is well known that there are many devices and wonderful ways of concealing incomes. The following table with the exception of the last three years, 1915, 1916 and 1917, for which years we have taken the figures upon which the government is paying to the private owners the guaranteed average income of \$940,700,000 per year, is made up from the reports of the Interstate Commerce Commission and represents as nearly as we can get at it from their report the "net earnings" or clear profits of the railroads, as reported by them during certain years.

#### Annual "Net Earnings" of the Railways

After "all fixed and other charges are deducted and being the amount available for dividends or surplus."

1903 .....	\$ 357,033,579
1904 .....	327,445,666
1905 .....	327,090,387
1906 .....	385,186,328

1907 .....	449,461,188
1908 .....	395,902,474
1909 .....	741,547,922
1910 .....	838,617,180
1911 .....	749,281,929
1912 .....	737,667,406
1913 .....	820,221,357
1914 .....	697,702,775
1915 .....	728,212,000 <sup>a</sup>
1916 .....	1,043,840,000 <sup>a</sup>
1917 .....	1,050,000,000 <sup>a</sup>

Nine hundred and forty million dollars every year! That is a tremendous sum to take out of the life of a nation and put in the hands of a few great private corporations.

But even this is not all. Vast as these figures are they do not tell all of the story. In the hearings before the Interstate Commerce Commission, in 1914, Clifford Thorne, Chairman of the State Railroad Commission of Iowa, has shown that there are other earnings of the roads, concealed by their method of accounting, amounting to a hundred millions of dollars a year. Also that the railroads derive several hundreds of millions of dollars more every year from the increased value of the land and terminal sites which they own. Mr. Thorne also showed that the average rate of dividends on capital stock yielding dividends has increased from 5.45 per cent in 1890 to 7.20 per cent in 1912, and that the claim of the railroads that their cost of operation has increased enormously, by reason of increased cost of labor and supplies, was broken down by showing that the rapid development in modern improvements and equipment of railroads had increased their carrying power and therefore their earning capacity from 50 to 100 per cent.

#### Terrific Concentration of Wealth

The total amount of "net earnings" or profits of the railroads cannot now be less than **nine hundred million dollars annually**. These vast incomes mean also a terrific concentration of wealth in the hands of the few. With the development of railroads in the United States came the development of the vast fortunes which have overshadowed anything of their kind in all history. Great private fortunes and the power of vast accumulations had been known before but never until the railway systems of the nation came into the hands of private owners, did such tremendous concentration and accumulation occur.

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<sup>a</sup> "Regulation of Railways," Samuel O. Dunn, p. 11.

Cornelius Vanderbilt piled up a fortune of \$105,000,000. Nothing like it had ever appeared before in a corresponding period of time. Probably nine-tenths of it came from the manipulation of railroads.<sup>1</sup> Jay Gould amassed a vast fortune estimated at hundreds of millions also largely wrung from the railroads of the country.<sup>2</sup> Such men may luxuriate in white marble palaces, build \$700,000 opera houses to supply themselves with amusement and "a permanent harem,"<sup>3</sup> live in houses of thirty rooms, sleep in bedsteads that cost \$25,000 and pass their time in vast play rooms costing \$250,000 with private gymnasias, bowling alleys, swimming pool and great tanbark hippodromes.

The Great Northern railway system produced \$458,175,877 up to 1906 for Mr. James Hill and his associates, with which modest sum it is to be hoped Mr. Hill has since been able to keep the wolf of high cost of living from the door.<sup>4</sup> The Central and Southern Pacific railway systems were made to produce over \$700,000,000 of unearned and unjust profits which were poured into the coffers of Mr. C. P. Huntington of California and his associates.

The way this vast sum has been taken out of the people of the western states and handed over to these few multi-millionaires is graphically summarized by Mr. Russell as follows:<sup>5</sup>

"The table does not show the total production of the millionaire mill: probably no human mind can trace, formulate and accurately state what that production has been. It shows only a part of the wealth that without return of any kind, we have freely bestowed upon this unparalleled institution:

#### CENTRAL PACIFIC.

Government land grant, minimum.....	\$ 30,000,000
Unearned dividends in stocks.....	34,000,000
Capitalized interest on subsidy bonds.....	30,700,000
Common stock (representing no investment).....	67,275,500
Bonus on bonds.....	16,819,000
 Total .....	 \$178,794,500

<sup>1</sup> "History of Great American Fortunes," Meyers, Vol. 11, chapter III. ff.

<sup>2</sup> Idem, chapter IX. ff.

<sup>3</sup> "Chapters of Eric" by Adams p. 106-7.

<sup>4</sup> "Stories of the Great Railroads," by Chas. Edward Russell, p. 78.

<sup>5</sup> Idem, p. 279.

**SOUTHERN PACIFIC.**

Government land grant, minimum.....	\$ 40,000,000
Donations by California councils.....	1,002,000
Mission Bay, donated by State.....	9,500,000
Capital stock (representing no investment).....	160,000,000
Dividends thereon .....	30,400,000
 Total .....	 <u>\$240,902,000</u>

**SOUTHERN PACIFIC COMPANY OF KENTUCKY.**

Government land grant with Morgan purchase.....	\$ 13,000,000
Surplus capitalized (see report 1913).....	100,081,022
Stock acquired under early leases.....	76,000,000
 Grand total .....	 <u>\$608,777,522</u>

Even the vast fortune of the Rockefellers though starting in the oil industry very soon entered the railroad field, and has reached its present stupendous power through railroad manipulation more than in any other way.

John D. Rockefeller's income is estimated at from two to six millions of dollars a month. Even if it dwindled down to a paltry \$100,000 per day he wouldn't need to worry about the rent and would have some left at the end of the year to buy up a railroad or two. The matter of founding a great university only takes a months "salary" now and then and the mighty accumulation goes on. "The money piles up on his door steps like a snowstorm, four or five thousand dollars per hour, day and night, \$600,000 or more a week, and it must be invested." It is invested—in more railroads. More railroads mean more profits which in turn must again be invested. And so on to the climax.

There are now but five or six great railroad groups in the United States. These are rapidly merging into one—and there is reason to believe that it is only a matter of time till the whole railway system of America, by far the greatest in the world, will be dominated by a single interest, perhaps by a single individual.

Such is the tremendous cumulative power of privately owned railways. Nothing approaching it has ever occurred before in the world's history.

**5. It Fosters Fraud.** A fifth count against the private ownership of railroads is the fact, that it feeds and fosters fraud. The whole system seems to have been conceived in iniquity and

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<sup>1</sup> "Railways, Trusts and the People," Parsons, p. 13.

born in sin. From the time that the railway promoters pull wires to secure fraudulent land grants through the whole system there is fraud, chicanery, injustice and abuse of power.

### The Famous Land Grants

The earlier forms of fraud arose in connection with the securing of land grants and various other concessions. In all about 215,000,000 acres of the public domain have been given over to the railroads of this country—a vast area larger than the whole of the New England and the middle states, larger than the whole German Empire and Italy combined. Much of it was secured by outright fraud, bribery and intrigue. In one case a measure was worked through congress changing the act of 1862 which granted the Union Pacific railroad every alternate section, ten miles on each side of the road for its entire length so that it gave the railroad alternate sections for twenty miles each side of the road—every alternate section in a strip of country 40 miles in width.<sup>1</sup>

In an investigation before the Pacific Railroad Commission in 1889 it was shown that up to that time the Southern Pacific had spent a total of \$5,497,539 at Washington without adequate vouchers—"explaining things" to congress.<sup>2</sup> In Wisconsin one railroad company stole (if there were a stronger word it should be used) a million acres of land. In accomplishing the theft the company debauched not merely a few members of the legislature but the whole legislature, the Governor of the state and all. This was in 1852. More than \$800,000 in lands and money were paid in bribes to accomplish this feat.<sup>3</sup> As late as 1900 the railroads pulled through congress a clever piece of fraud by which they were permitted to exchange whatever worthless land had fallen to them in the grants of preceding years. In this way mountain tops of perpetual snow and crags and peaks and also such land as had been denuded of its value was exchanged for other lands fertile and valuable. By this clever fraud the Northern Pacific alone acquired about 2,000,000 additional acres of mineral, forest and farming land. This was known as the "Exchange of Land" law.<sup>4</sup>

These things are matters of public record. They should be remembered. For these gentlemen, their successors and assigns are quite prone to talk to us at times about the sacred rights of their private property.

<sup>1</sup> Railways, Trusts and the People," p. 128.

<sup>2</sup> "Stories of the Great Railways," p. 177-8.

<sup>3</sup> "History of the Great American Fortunes," Vol III. p. 32-36.)

<sup>4</sup> *Idem*, Vol. II. p. 43.

Besides these vast land grants made by the United States government and the various states—innumerable counties and cities made additional donations to these apparently insatiable railway corporations. In Massachusetts by 1871 as high as \$2,351,000 had been voted to railroads in nine counties alone.<sup>1</sup> In California the people very obligingly elected Leland Stanford, then president of the Central Pacific railways as Governor of the state. Under his "wise" direction the legislature passed bills kindly permitting the cities and counties to contribute to the coffers of the railroads. San Francisco gave \$400,000; Place county, \$250,000; Sacramento county, \$300,000.<sup>2</sup>

And to cap the climax of fraud it finally came out in court proceedings that these cities and counties and a few individuals were the only ones that ever paid in their money to the railroad companies. Stanford, Huntington, Hopkins and Crocker, the ones who afterwards seized the roads never paid a cent for their stock and finally re-purchased the stock subscribed for by these cities and counties out of the earnings of the road.<sup>3</sup>

#### Construction Frauds

Next to the frauds practiced in acquiring land grants came the famous construction frauds. For example the Central Pacific had worked through Congress an act donating to that company \$16,000 per mile for every mile of railroad built in valley or on level land; \$32,000 per mile in foothills and \$48,000 per mile in mountains. Now note the customary railroad fraud—fraud that we presume the gentlemen would prefer to have us call "superior ability" or "genius" or perhaps "philanthropy." The company charged and collected from the government for 420 miles of road laid on level or practically level ground at the foot hill rate of \$32,000 per mile. The rate should have been \$16,000 per mile. That is, the railroads collected from the government on this stretch of road alone \$13,440,000 which was enough to pay the entire cost of constructing the 420 miles of road, leave the owners \$3,000,000 in addition to their own bonds at \$32,000 per mile and all the stock they had issued.

These are only examples of monumental frauds that have been practiced in railroad building from the beginning. The

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<sup>1</sup> "Railways, Trusts and the People," p. 186, foot note 19.

<sup>2</sup> "Stories of the Great Railways," p. 120.

<sup>3</sup> *Idem*, p. 166-167.

famous Credit Mobilier on the Union Pacific alone defrauded the people out of \$44,000,000. And these are said to be not unusual but the usual practices in railroad promotion.<sup>1</sup>

#### Watered Stock and Other Frauds

Such were some of the frauds practiced in the course of the promotion of the railroads. As soon as they are built and operation starts a whole series of other frauds begin. Enormous profits are concealed by watered stock and over capitalization. Rate discriminations, secret rebates, and private car abuses favor certain shippers and certain communities to the destruction of others, while fraudulent weighing of mails and excessive charges for hauling it plunders the government and the people.

The history of rate discriminations would fill volumes. The free-pass evil alone has amounted to as much as \$30,000,000 to \$50,000,000 annually. Freight discrimination has built up certain individuals and corporations and ruined others. Perhaps the most notable case is that of the Standard Oil company which not only received enormous sums in rebates but in one case had its oil hauled 300 miles for nothing and in some cases forced railroads to charge its competitors exorbitant rates and turn the excess over to the Standard.<sup>2</sup> It is claimed that the Standard Oil company has received as much as \$10,000,000 in rebates in eighteen months and that the beef trust has gotten as much as \$25,000,000 in a single year.<sup>3</sup> Similarly rates are so fixed as to favor certain cities and communities to the extreme disadvantage and even ruin of others. In some cases whole states were compelled to give up their chief and most advantageous industry after years of struggle against impossible rates.<sup>4</sup>

Watered stock is another and even greater fraud to which the public is subjected under private ownership. It is a clever device for concealing profits and thereby keeping up rates and keeping wages down. Suppose a company invests a million dollars in a railroad. Suppose it charges 3 cents a mile for passengers and 1 cent per ton mile. And suppose that after a year's operation the enterprise had yielded \$500,000 in profits. That would be enormous. It would be "excessive," extreme. Very naturally everybody would immediately demand a reduction of rates on the ground of the excessive profits. If, however—and

<sup>1</sup> Idem, p. 129 f.

<sup>2</sup> "Wealth vs. Commonwealth," by Lloyd.

<sup>3</sup> "Railways, Trusts and the People," p. 88.

<sup>4</sup> "Stories of the Great Railroads," chapter X, p. 254.

here comes the clever device of watered stock—the company simply doubles the capitalization without actually investing any more money in the enterprise then the account will show one half the rate of profit. Thus by over-capitalization their excessive rates are concealed. By concealing profits rates are kept up, and enormous fortunes accumulated.

There are many different ways of "watering stock" and inflating the capital accounts of railways. One is by the purchase and consolidation of two or more roads and the issuance of new stock in excess of the actual capital invested. For example an investigating committee of the New York state legislature found in 1880 that the New York Central had been formed by the union of several small roads some years before and that in the process of consolidation the capitalization had been raised from \$23,297,326 to \$34,649,633.<sup>1</sup> Innumerable instances of this kind have occurred and the practice seems to have gone on down to date. In the recent investigations made by the Interstate Commerce Commission during the years 1913 and 1917 in the matter of the New Haven system it was found that the capital account had been raised from \$93,000,000 to \$417,000,000. Of this latter amount only \$120,000,000 had been devoted to the properties of the company thus leaving \$204,000,000 which was used in outside speculations.<sup>2</sup> At one time the Erie railroad was capitalized at \$135,000,000 when its actual value as estimated by experts of the New York state legislature was only \$65,000,000. And these are but illustrations of the methods used in the inflation of the capital accounts.

Another method is found in the history of the Pennsylvania system. This company claims \$193,000,000 as the cost of its lines while the total capitalization at the time of the claim was \$418,000,000. This means simply that the Pennsylvania railroad had issued about \$220,000,000 of its own securities for the purchase of stocks and bonds of other corporations mostly railroads. Another way to boost capitalization is to "reorganize" the company. This was done in the case of the Chicago and Alton, the "reorganization" lifting the capitalization from \$30,000,000 to \$94,000,000. Still another way in which railroad capital becomes inflated is by the failure to eliminate dead capital. This is well described by the late Professor Parsons who says "Each time a railroad system is rebuilt, the cost of the new system is added to the

<sup>1</sup> "Railways, Trusts and the People," p. 98.

<sup>2</sup> Public Ownership of Railroads, Todd, Public Ownership League, 1439 Unity Bldg., Chicago.

former cost, and the public has to pay the dividends not only on the value of the existing road, but also on the old roads that have gone out of existence. If this process continues, the railroads of the thirtieth century will be drawing interest and dividends on the railroad capital that died in the twentieth century or the nineteenth century, and the men who own the railroads may take the United States in part payment and sue for the rest of their interest claims."<sup>1</sup>

As to the total amount of fictitious capitalization in the railroads of the United States it is impossible to say. It is variously estimated. In 1893 former Governor William Larrabee of Iowa declared that "stock and bond inflation, it may confidently be asserted, has created from five to six billions of dollars of fictitious railroad capital."<sup>2</sup> As the total capitalization of the railroads at that time was less than ten billion dollars, more than one-half of the entire capitalization at that time, according to former Governor Larrabee, was fictitious. Professor Parsons writing in 1906 estimated that "a good deal less than one-half of their capitalization represents real values paid in and applied to construction or improvement of their roads."<sup>3</sup> The Democratic Presidential Campaign Book of 1912, on page 275 declared that "there are nine billion five hundred millions of water in the stocks and bonds of the railroad companies."<sup>4</sup> As the total capitalization of the roads at that time was \$19,752,536,264 the fictitious value would be a little less than one-half of the total if President Wilson's campaign book can be relied upon. Glenn E. Plumb, the special attorney for the Railroad Brotherhoods, in his memorandum on a Suggested Plan for Railway Reorganization presented to the Interstate Commerce Committee of the United States Senate in February of 1919 while stating that "we have no figures available which would indicate the amount" of fictitious valuation in the capital account of the railroads, roughly, and conservatively, estimates it at one-third.

In August, 1919, the Interstate Commission had completed the valuation of five of the smaller railroads and gave out the results. The investment in road and equipment as shown by the books of these five roads totalled \$177,031,508.01. The cost of

<sup>1</sup> "Railways, Trusts and the People," p. 107.

<sup>2</sup> "The Railway Question," p. 186.

<sup>3</sup> R. T. and the P., p. 109.

<sup>4</sup> Quoted by Laurence B. Finn, chairman of the Kentucky Railroad Commission, in his pamphlet on "Why Private Ownership of Railroads Cannot Meet the Demands of the Public in Matters of Transportation," p. 63.

reproduction new in 1914, according to the Commission's engineers, would be \$84,280,359. The present value of the land owned and used for transportation purposes by these companies is \$5,541,288.65, making the total real value \$89,821,647.65 as over against a capitalization of \$177,031,508.01. In other words there is in these five roads some 89 million dollars of real value and 87 million of fictitious value,—Almost one half water.

If the facts thus far established are typical of the whole railway system of the country the over capitalization is tremendous. Even if we take the lowest and most conservative estimate, and the present capitalization of \$21,092,372,245, as given by the Interstate Commerce Commission, and reckon the interest at only 4 per cent, the total exploitation of the people of this country on this one item of fictitious capitalization alone amounts to over \$280,000,000 every year.

The plunder of the mail service is another fraud. In the first place the railroads have managed by one means or another to keep the charges for carrying mail far above every other rate. They get from two to four times as much for hauling mails as they do from the express companies for equal service. In other words on the basis of what they charge express companies the railroads charge the government from two to four times what they ought to charge for hauling mails.<sup>1</sup>

But that is only a part of the story. Besides these exorbitant rates for hauling mails the railroads work another graft. They charge the government an average of \$6,250 per car for the rent on postal cars. Postmaster General Vilas, in his report 1887, p. 56 (quoted by Parsons) says: "In other words in addition to paying rates that are clearly extortionate the railroads get in rentals for the mail cars every year more than the cars are worth." This means a clear robbery of \$5,368,000 per year.

But the climax of the fraud is yet to come. To all the above the railroads add yet another atrocity,—they cheat the government by false weight. The contracts for carrying the mails are let on the basis of the estimated weight. To reach this estimate the mails are weighed once every four years. It has been proven that during the period of the weighing of the mails the railroads have resorted to all sorts of fraudulent methods in order to pad the mails and exaggerate the weights. Thousand of pounds of empty sacks are shipped back and forth; "bundles of wire 6 feet high and 6 feet around, bags of seeds, supplies for the

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<sup>1</sup> "Railways, Trusts and the People," p. 139 ff.

army, tons of documents packed in wooden boxes that sometimes require three men to handle, millions of blanks of the Census Office"<sup>1</sup> are loaded into the mails. In one case 300 sacks of documents weighing from 100-125 pounds were mailed out over a railway system by a United States Senator (J. B. Gordon) and a member of Congress (A. C. Latimer) and deliberately remailed over again so as to be weighed and re-weighed to increase the total.<sup>2</sup>

The total annual loot of the government through the over-charges for the handling of mails is estimated at \$24,000,000,<sup>3</sup>

#### Fraud Still Prevails

Nor does it seem that the frauds in railroad management have been at all abated in recent years. The President of the Public Ownership League of America,<sup>4</sup> Hon. A. M. Todd spent much of his time for many years in collecting data upon this subject which he presented in a statement to the Committee on Interstate and Foreign Commerce, of the House of Representatives, Sixty-Fifth Congress, January 29, 1918. The statement has been printed in pamphlet form from which we quote the following:

"During the years from 1912 to 1915 various complaints were made by shippers and the public to Congress and the Interstate Commerce Commission respecting certain illegal practices of four important systems of railways and their resulting inefficiency of service and unjust rates. On account of these complaints, which seemed well substantiated, the Interstate Commerce Commission, partly on its own initiative and partly in compliance with resolutions of Congress, made investigations, and issued their official reports of findings, in the years 1913 to 1917, respecting the unlawful practices and financial transactions of the following four railway systems:

- (1) The New York, New Haven & Hartford Railroad Co., Report No. 6569; date, July 11, 1914.
- (2) The Louisville & Nashville Railroad Co., Report No. 4788; date, February 9, 1915.

<sup>1</sup> Report of Postmaster General Wannamaker, 1893.

<sup>2</sup> Senate Document, 54th Congress, 2nd Session Vol. 5 p. 27 quoted in "Railways, Trusts and the People" p. 147 foot note.

<sup>3</sup> "Railways, Trusts and the People" p. 149.

<sup>4</sup> 1439 Unity Building, Chicago.

(3) The Chicago, Rock Island & Pacific Railway Co., Report No. 6834; date, July 31, 1915.

(4) The Cincinnati, Hamilton & Dayton Railroad Co. and the Pere Marquette Railroad Co., Report No. 6833; date, March 13, 1917.

"The result of our research' says the Commission's report, 'into the financial workings of the former management of the New Haven system has been to disclose one of the most glaring instances of maladministration revealed in all the history of American railroading.'"

Similar conditions are disclosed in connection with the other roads mentioned.<sup>1</sup> From all of which it appears that the fraudulent practices of private railway management goes on unabated down to the last report.

6. Financial Failure.—And finally the financial management of the railroads has been and continues to be a colossal failure,—a failure, from the standpoint of financial integrity and business efficiency. In spite of the vast empires of land and the countless millions of dollars our people have given outright to those corporations; in spite of the additional countless millions of tribute that they have levied upon the commerce of our country; in spite of the vast fortunes that have been accumulated for individuals; in spite of all of this, 719 different railroads have gone into the hands of receivers in this country and 928 have been sold under foreclosure in the last 38 years.<sup>2</sup> On October 1, 1915, there were in the hands of receivers 82 companies operating 42,000 miles of road and having an aggregate capitalization of \$2,264,000,000.<sup>3</sup> In other words, not only have these railroads absorbed all of this vast wealth which has been poured into their coffers, but in addition to that the private managers have sapped the enterprise so completely, that over 42 percent of the railroad mileage of the country ha sbeen bankrupt.<sup>4</sup>

Thus at no time has private enterprise been able to meet successfully the financial requirements of an adequate transportation system for the nation. The full measure of this failure became apparent at the outbreak of the war when there was suddenly thrust upon the roads the extra demands of the mili-

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<sup>1</sup> Public Ownership of Railways, Hon. A. M. Todd, President Public Ownership League, 1489 Unity Building, Chicago.

<sup>2</sup> Statistical Abstract of the United States 1917, p. 318.

<sup>3</sup> "Regulation of Railways," by Samuel O. Dunn, p. 34.

<sup>4</sup> Socialism and Social Reform," p. 270, note.

tary crisis. Not only were the roads unable to handle the traffic because of their utter failure to keep the development of their equipment and facilities up to the growing needs of the country but they were unable to secure the capital to make the needed extensions and rehabilitation. Moreover, the organized railway workers were pressing their claims for better wages and better conditions which the companies held it was simply impossible for them to grant. And again the failure was a financial one. Private enterprise could not, at least it was claimed that it could not, stand the extra expense. In fact private enterprise and private capital in railroading faced a complete breakdown and failure as the war crisis came on and nothing but the intervention of the Government averted a most serious disaster.

When the government entered the money market as a heavy borrower in order to defray the war expenses it made it still harder for private capital to finance the needs of the railroads. "For private capital, however well organized, cannot compete with the government as a borrower. \* \* \* Rail securities were dwindling and credit based on rail securities were being demoralized." And here was the real reason why the railroads were taken over—private capital was tottering to its fall and threatened to pull down the whole house. Railroad securities had to be stabilized. "It was in order to avert a financial disaster that the Government took over the roads for the purpose of guaranteeing returns on rail securities. For, the President said, at the time the carriers were taken over, 'It would have been impossible otherwise to give the necessary financial support to the roads from the public treasury.'<sup>1</sup>

In other words private ownership of railroads was a financial failure at the most critical time in the nation's history and nothing but government intervention could save the situation.



<sup>1</sup> "Why Private Ownership of Railroads Cannot Meet the Demands of the Public" p. 7.

## CHAPTER II.

## THE FAILURE AND FUTILITY OF REGULATION

In the previous chapter we have presented the case against the private ownership of the railroads. But there are those admitting the failure of private ownership, are still opposed to public ownership because they believe that "regulation" will solve the problem. Let us investigate this claim.

## Failure in Foreign Countries

In the first place let us recall the fact that this theorizing on "regulation" as a solution of the railway problem has been tried for nearly a half a century in foreign countries and has everywhere proven a failure and been given up. "Regulation" has been abandoned in favor of public ownership in most of European countries where it has been tried.<sup>1</sup>

In England after three-quarters of a century of effort to solve the problems of railway transportation by regulation of private ownership, Mr. Vrooman writes in 1910, "The present railway situation in England is highly unsatisfactory to everyone concerned, and is steadily becoming more so."<sup>2</sup> Since the conditions do not seem to have improved any further when war came on England found herself confronted with the problem in such an acute form that nothing but an immediate assumption of government control and operation could meet the situation.

In Switzerland for nearly a half a century regulation of the railway was left to the individual Cantons or states. This finally proved so unsatisfactory that by the year 1872 the Federal authorities assumed all the functions of regulation. This proved somewhat better than the system of state regulation but still did not solve the problem or to any great extent improve conditions. So, finally, the Swiss people demanded complete public ownership and management. This was brought about by the famous railway purchase law of 1897.

In Italy there had been for many years a dual system of ownership and operation of railways, partly private and partly public. From 1885 on a new form of regulation was undertaken which provided for the leasing of such lines as the government owned under a form of contract that was intended to insti-

<sup>1</sup> *The Failure of Regulation*, by Daniel W. Hoan.

<sup>2</sup> "American Railway Problems," Carl S. Vrooman.

good service, reasonable rates and better conditions all around. It soon developed, however, that the private owners had gotten the best of the arrangement, and transportation conditions were no better. Indeed, they grew worse. The report of the Royal Italian Railroad Commission made to Parliament in May, 1903, reviewed the railway situation in Italy during the last few years of private ownership and operation under government regulation and disclosed the most unsatisfactory conditions. Private ownership under government regulation had been a dismal failure.<sup>1</sup> The situation was so serious that when the strike of railway employees came in 1905, it precipitated a political crisis which resulted in the passage of the railway law of April 22, 1905, providing for the state ownership and operation of most of the Italian railroads.

Of all the European countries which have tried the policy of regulation, France has had the longest experience and has come nearest to achieving satisfactory results. And yet in France the government which already owns a very considerable portion of the entire railway system is rapidly acquiring other lines. The French people have long been committed in the terms of railway acts and in the provisions of railway franchises to ultimate public ownership.

Thus it appears that "the experience of France with railway regulation, like that of Germany, Austria, Hungary, Denmark, Switzerland, Italy and every other country that has tried it, goes to show that \* \* \* it is not, or at any rate it never yet has proved to be, a satisfactory, final solution of the railway problem."<sup>2</sup>

#### Failure in America

Our experience with the theory of regulation here in America has been no better.

For over forty years the people of this nation have been trying to protect themselves from the evils of the private ownership of railroads. For over thirty years we have had an elaborate national organization known as the Interstate Commerce Commission trying to "regulate" the railroads. We spent \$5,666,975.12<sup>3</sup> on this commission in 1918—trying to regulate the railroads. At least thirty-five of the different states—practically all of them, have or have had railroad commissions in addition to the

<sup>1</sup> "American Railway Problems," Vrooman, p. 76.

<sup>2</sup> Idem, p. 87.

<sup>3</sup> 32nd Annual Report of the Interstate Commerce Commission, p. 59.

national commission all trying to "regulate" the railroads. The railroad commission costs the state of Wisconsin nearly \$200,000 a year. The New York state commission costs over a million dollars a year. At that rate the state commissions must cost the people of this nation many millions annually in addition to the millions appropriated to the federal commission.

Millions upon millions of dollars spent, endless and interminable litigation, constant and ceaseless strife, struggle and turmoil—and what of it all?

Has the terrific concentration of wealth been stopped? Or even checked? Have unlawful combinations ceased? Has the cost of living been reduced? Have freight rates been reduced? Or passenger rates? Has the annual toll of the murderous railroad wrecks been reduced? Has the vicious watering of stock and stock gambling been prevented? Has the railroad lobby been abolished or the railroads' corrupt manipulation of politics ceased?

Nothing of the kind.

1. **Concentration of Wealth Unchecked.**—Whatever good the century of futile effort to regulate railroads may have accomplished the real abuses of private ownership remain. They loom as big and as menacing as ever. The real problem is yet untouched. The accumulation of wealth, the concentration of ownership and the unlawful combinations of capital have gone on with increasing might and menace.

The final culmination, the supreme test of our "regulation" remedy was made in the famous Northern Securities case. Here was an attempted combination and concentration of ownership with all the evils in their worst forms. It was contrary to law. The government of the United States undertook to stop it. Years of litigation followed. The case was won. The Northern Securities Company was declared illegal by the supreme court of the United States. The monopoly was duly "smashed." And the result?

"Within four months of the decree" writes Mr. Atwood in McClure's Magazine for August, 1912, "the value of the stocks in the two railroads concerned had risen \$150,000,000. The entire control of the railroads lies exactly where it lay before, viz., under the Hill, Morgan group of insiders."

And that is about the best and the worst the regulators have ever been able to accomplish.

2. **Rates Increased.**—One of the main objects of regulation is to keep down rates, prevent excessive profits and reduce the

cost of transportation. The Interstate Commerce Commission and all the various state commissions have been engaged in this struggle from the beginning. How have they succeeded?

Neither freight nor passenger rates have been reduced. As a matter of fact they have increased. The Interstate Commerce Commission has ordered some reductions in freight rates but they have not been sufficient to effect any reductions in the general cost of transportation. In 1914 in the famous "Five Per Cent Case" it held that the earnings of the eastern roads were "insufficient" and granted an increase in rates. In 1917 it granted a general increase of rates to all the roads. When many of the states reduced passenger rates to 2 cents per mile the Interstate Commerce Commission held that the rate was too low;<sup>1</sup> and in one case at least, the Shreveport case, the Interstate Commerce Commission held out against the Texas state commission which had ordered a reduction of rates and the Supreme Court sustained the federal body, thus preventing the reduction of rates ordered by the state commission.<sup>2</sup> In fact the tendency seems to have been for the Interstate Commerce Commission to throw its influence on the side of higher rather than lower rates in the controversies, even against the stand of the state legislatures and state commissions when the latter bodies undertook to reduce rates.

In recent years, and before the war conditions came on the railways seemed to have won in their contentions for increased rates not only before the Interstate Commission, but also before the state commissions and the state legislatures. Advances in freight rates had been allowed in New England, Alabama, Michigan, Missouri and Illinois previous to the assumption of the federal control of the roads.

Thus up to the time that the government took control of the roads no real reduction of the cost of transportation had been effected as a result of an elaborate system of "regulation." If anything rates had advanced and the cost of transportation had increased.

This general tendency is shown by the following table compiled by the Interstate Commerce Commission and published in the Statistical Abstract of the United States for 1917, page 301.

<sup>1</sup> "Regulation of Railways," Dunn, p. 78.

<sup>2</sup> *Ibid.*, p. 79.

## COST OF TRANSPORTATION INCREASING.

## Revenues from Passenger and Freight Service.

Year	Passenger Service		Freight Service		All Trains	
	Revenue per Passenger per Mile	Passenger Earnings per Mile of Road	Revenue per Ton per Mile	Freight Earnings per Mile of Road	Revenues per Train-Mile	Operating Expenses per Train-Mile
1906	2.003	2,808.72	.748	7,486.42	2.07547	1.37060
1907	2.014	3,032.14	.759	8,122.86	2.17741	1.46993
1908	1.937	3,043.00	.754	7,259.00	2.11269	1.47340
1909	1.928	2,979.00	.736	7,184.00	2.16789	1.43370
1910	1.938	3,228.00	.753	8,089.00	2.24628	1.48865
1911	1.974	3,312.00	.757	7,859.00	2.24824	1.54338
1912	1.987	3,301.00	.744	7,962.00	2.29259	1.59077
1913	2.008	3,506.00	.729	9,048.00	2.45387	1.70375
1914	1.982	3,476.00	.733	8,596.00	2.45024	1.76917
1915	1.985	3,229.00	.732	8,128.00	2.51895	1.77641
1916	2.006	3,479.00	.716	9,863.00	2.80074	1.83279

In 1918 came the assumption of "control" of the railroads by the government. Under this government control, it must be remembered, the roads were still under private ownership. Let no one mistake the arrangement under which the railroads are being operated since December 28, 1917, for public ownership. It is not public ownership. It is private ownership and operation at public expense. And the whole system is still a regime of "regulation."

Under this new phase of regulation resulting from the government control of the roads since the latter part of December, 1917, freight rates have been increased 25 per cent and passenger rates nearly 50 per cent.

3. Profits and Dividends Increased.—Furthermore "regulation" does not seem to have turned any part of the great golden streams of profit in the direction of the people's pocket books. We have shown in the table above that the earnings of the railways have steadily and quite decidedly increased year by year. The following table from the same authoritative source shows that the percentage of the stock paying dividends has increased; the average rate of dividends has increased; and the amount of dividends has increased. So that whatever way we look at it the railway companies have been steadily gaining.

<sup>1</sup> Statistical Reports of the Interstate Commerce Commission, quoted by Statistical Abstract of U. S., for 1917, p. 303.

EARNING OF RAILWAYS.<sup>1</sup>

Year	Percentage of Stock Paving Dividends	Average Rate of Dividends Paid	Total of Dividends and Interest Paid
	Per Cent	Per Cent	Dollars
1894.....	36.57	5.40	348,294,749
1899.....	40.61	4.96	362,167,909
1904.....	57.47	6.09	519,615,787
1909.....	64.01	6.53	703,746,727
1914.....	64.39	7.97	891,533,240
1916.....	59.04	7.98	886,510,469

Passenger rates have gone up; freight rates have gone up; profits and dividends have gone up—the railroads have gotten the best of us at every point. In spite of our regulation. It is about as one writer has said,—“regulation has forced prosperity upon the reluctant railroads.” And that is about the net results of thirty years of effort to get some prosperity for the people through “regulation.”

4. **Safety Not Increased.**—Nor has regulation increased the safety of our railroads. In spite of all our years of fuss and fight legal and otherwise over automatic couplers, air brakes, block signals and safety devices our railway travel is little if any safer than it was ten years ago. We have shown above<sup>1</sup> that in 1909 our American railways killed 8,722 and injured 96,626 persons. In 1916, seven years later, the record was still 10,001 killed and 196,722 injured. Russell in his Pearson's article<sup>2</sup> quotes tables of statistics of railroad accidents to support his statement “the perils of our railroads are increasing.” In the May number p. 564 and again in the June number, p. 654, he quotes still further statistics to sustain his earlier statement. Carl S. Vrooman in his book “American Railway Problems,” says:<sup>3</sup> “every time an American takes a railway trip he runs more than twice as great a risk of being killed and three times as great a risk of being injured as he did ten years ago.” This was written in 1910 and he quotes the records of accidents to prove his contention.

So “regulation” has gained us nothing in safety of travel.

5. **Frauds Unabated.**—Over-capitalization or watering of stock seems to have gone on unabated up to date. Various students and writers have traced the story of over-capitalization through the history of each principal road. These studies show

<sup>1</sup> Chapter I., page 18.

<sup>2</sup> March 1913, p. 325.

<sup>3</sup> Page 187.

that from \$1,600,000 to \$5,000,000 has been paid by the public in interest on inflated or fictitious stock in the Lake Shore system alone; that the New York Central is costing the people of this country \$3,000,000 every year in unjust rates based on fictitious capitalization; that successive "inflations" of the capital stock of the Chicago, Rock Island and Pacific Company have gone on right down through the reign of the benign "regulators." In 1903 the bonded indebtedness of the road was \$21,543 a mile; by 1911 it had reached \$32,146 a mile; of the \$74,877,200 of capital stock, \$31,804,000 was water-inflation, fictitious capital. The net income of this single road for 1911 was \$19,431,790—an income of 44% on the actual capital invested.

We have shown above<sup>1</sup> that down to as late as August, 1919, this evil of over-capitalization was in full swing, fully one-third, and in some cases one-half, of the capital account representing no real investment.

Regulation has availed nothing whatever in relieving the nation from its crushing burden of overcapitalized railroads. It has not stopped the evil; it has not even halted it for a moment; it does not seem to have even slackened its speed.

**6. Commissions "Controlled" or Obstructed.**—The inherent and inevitable conflict of interest between the owners and the public under private ownership operates constantly to defeat regulation. The moment the government or a state appoints a commission and puts upon them the task of regulating or restraining the railroads, that moment the companies set all their forces to work to get control of the commission, or failing in that, to obstruct and defeat the commission in its work.

On the whole they succeed. "In no state of the union" says Parsons<sup>2</sup> "has the government succeeded by regulative measures in abolishing unjust discrimination or securing fair rates or reasonable safety and convenience of service." He quotes prominent authorities from various states who testify to the utter ineffectiveness of the state commissions. The commissioners of Georgia, according to one witness, "have allowed the grossest extortion to be practiced against the shippers and have been of no service whatever to the people." In Missouri, according to another, "the railroads practically always had their own men on the commission up to 1904 and of course nothing was done to check railway abuses or to interfere with their control of the

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<sup>1</sup> Chapter II., page 26.

<sup>2</sup> Encyclopedia of Social Reform article p. 1039.

state and its government." In Oregon "the people were almost unanimously of the opinion that the commission was of no value to them." In Michigan, "the commissioner is the boss of the machine that governs Michigan and shapes its policies," and when the case was brought against the railroads to compel them to pay \$4,000,000 of taxes which the authorities had kindly allowed them to evade, the railroads produced sworn statements by tax commissioners who afterwards said they made the statements at the suggestion of the commissioner of railroads." In Massachusetts the commission when appealed to by shippers for relief from certain unjust rates took a report prepared by one of the officials of the railroad and turned it over to the state legislature as the report of the commission.<sup>1</sup>

He must be sanguine indeed who hopes to see any considerable relief of the people through "regulation" thus regulated.

**7. The Courts Interfere.**—And if we wish to get the full force of the futility of the theory of regulation we should remind ourselves that even if the railroads should in any case fail to control the commissions, there are always the courts.

In Texas a railroad commissioner who showed some real determination in the matter of better rates issued an order for a reduction of 10% in express rates. But the companies secured an injunction from the Federal Circuit Court restraining the order. Back in the eighties the courts declared the Granger laws of Illinois unconstitutional. In California we had a very striking illustration of how regulation does not regulate even if the commission is good enough to issue an order favorable to the people. In 1895 the grain shippers went before the railroad commission and finally succeeded in getting an order for a reduction. They asked for a 25 per cent reduction. The Commission ordered eight per cent. It was not much but it would have helped some. But Judge McKenna of the United States Circuit Court in California saved the day for the railroads. At their request he issued an injunction preventing the enforcement of the order. Then followed a big legal battle. The shippers put up a splendid fight. The very life of the grain raising industry of a state was at stake. The facts were on their side. They marshaled them with great force and skill. But the railroads beat down every argument with the cudgel of over-capitalization. The Southern Pacific company operated under lease seven different lesser railroads. Every one of them was fearfully over-

<sup>1</sup> "Railways, Trusts and the People," pp. 243-248.

capitalized which concealed their profits. But worse than that the rental of these roads was charged up as a part of the operating expenses of the larger road and thus the profits of that road were concealed. Thus the Southern Pacific company was able to show that it made no profit, was really very poor and could not possibly stand the reduction of rates ordered by the commission.

The judge decreed that for that year (1894) the Pacific System of the Southern Pacific had been operated at a loss of \$276,262,700 and that therefore the company could not afford to make the reduction. It would be confiscation; and unconstitutional. The judge went farther. He declared the clause in the constitution of the state of California which gave the commission its authority "unconstitutional," and on these grounds he made the injunction permanent. The order of the commission was rescinded, the rates remained as the company placed them.

Thus the railroads fastened their grip upon the state of California. They took all the profits on the fruit, all the profits on the grain; they stifled industry, throttled agriculture and held back the development of this state of the most wonderful resources in the world so that by 1910, after thirty years of railroad domination it has a population of only 2,377,549, in an area that should have at least five times that population.<sup>1</sup>

**8. Government Control Inadequate.**—The latest and most intensified form of regulation we have tried in this country is the government control undertaken as a war measure in 1918. As a measure designed to enable the nation to meet an extraordinary emergency due chiefly to the military crisis it has been eminently successful. But as a solution of the transportation problem of the nation it is no more satisfactory or successful than all other efforts at regulation.

It may be necessary at this point to emphasize that fact that the federal control and administration of the railways undertaken in 1918, when the government "took over" the roads, is in no sense of the word public ownership. It is in reality private ownership and operation of the roads at public expense. All the evils of private ownership with a few modifications in the details are still in operation and as soon as the war crisis is past they rise up to torment us.

No one is satisfied with the present arrangement. Labor is dissatisfied and demands increased wages to meet the increas-

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<sup>1</sup> "Stories of the Great Railroads," Charles Edward Russell, pp. 226-254.

ing cost of living; the owners are dissatisfied and demand the return of the roads to full private management and control and, above all, guaranteed returns on their investment, which means still further increases in freight and passenger rates, which, in turn, will be reflected in the increased cost of all commodities and a corresponding increase in the cost of labor; and finally, the public is dissatisfied because it is called upon to carry the whole burden of arrangement in the increased cost of transportation.

So that this last form and phase of regulation is no more successful than those that have preceded it. In whatever way we look at it, in whatever form we apply it, regulation is no solution of the problem. It does not go to the roots of the matter. The antagonism of interest between the owners and the public can be abolished only by public ownership. It is self-evident that every institution and enterprise should be run in the interests of those who own it. If private individuals own our railroads, then the constant struggle will be to operate these roads in the interests of the private owners. The private owners demand big profits at whatever cost. They choose their officials, from the section foreman up to the railway presidents, with this end in view. And they place upon their officials this one inflexible demand—profits. And then the state undertakes to set a commission of men to watch these officials and keep them from doing the things which their superiors demand they shall do. And this is the inevitable, interminable conflict. So long as we have the private ownership of railways, so long we shall have this unending struggle. It is prodigiously wasteful and at the very best is only in a most partial way successful. As a whole it is an absolute failure.

A half century of experience in this and other nations has made it perfectly clear that regulation is no solution of the difficulty. We have given only a few illustrative cases out of a long story of nearly a half century of utterly futile struggle to do the impossible. And the story is the same in other countries. In nation after nation it has been given up as a failure and the people have gone on to public ownership—which in every case has brought relief.

**CHAPTER III.****THE EXTENT AND SUCCESS OF GOVERNMENT OWNERSHIP**

We have recited the story of our experience with the private ownership of railways in the United States.

Meanwhile a most interesting and significant thing has been going on in other lands. The other nations are solving their railroad problems. Every count that we have made against the railroads of this country has been made against private ownership in other countries,—but in most cases the abuses have been stopped. And in the remaining cases the solution is under way.

In Germany, Belgium, Switzerland, Norway, Sweden and especially in New Zealand and Australia the railway problem may be said to be solved and satisfactorily solved. In these and many other countries the problem is well in hand. The governments are the masters and the railroads are the servants.

And what is the process?

One after another of the foreign nations have given up private ownership and established government or public ownership. And the most of them have done so after years of futile efforts at regulation.

The extent of public ownership is not realized by most of our American people.

Fifty-four nations now have public ownership of railroads. The ownership ranges from a few miles to the entire mileage of the country.

One-third of the entire railroad mileage of the world is now publicly owned.

Outside of the United States over one-half of the total railroad mileage of the world is under public ownership.

More than one-half of the population of the civilized world now lives under a regime involving the public ownership of railroads.<sup>1</sup>

<sup>1</sup> "State Ownership and Operation of Railways," Memorandum Railway Nationalization Society, London.

By 1913 there were 224,273 miles of publicly owned railroads in the world out of a total of 685,636. In other words 32.7 per cent or nearly one-third of the total railroad mileage was by that time publicly owned. Since then the tendency towards public ownership, as is well known, has been very strong. Before the outbreak of the world war many of the European nations owned the majority of their railroads and the tendency toward government ownership of this public utility has been marked. France has owned and operated the State Railway since 1878, and in 1908 purchased the Western Railway. The other lines were operated, until the outbreak of war, under private management. Before the war Russia was gradually acquiring the private lines of that country. Italy has owned the majority of her railroads since 1884 and has operated them since 1905. Switzerland and Japan have also definitely committed themselves to government ownership of railways, the former in 1898 and the latter in 1906.

Upon the outbreak of the war practically all the nations already owning more or less of their railroads extended their ownership and those whose lines were still under private ownership very shortly assumed control of them. Great Britain "took over" her roads in this manner and later on the United States did likewise and while the form of control did not involve ownership it certainly has been a long step away from unrestricted private ownership to say the least. Meanwhile Canada has recently taken over the Grand Trunk Pacific railway system embracing a total of 2,229 miles. This gives Canada a total of 17,000 miles of publicly owned railways. This is 44 per cent of the total railway mileage of the country. In the United States the government is building 601 miles of publicly owned railroads, and the movement for nationalization in England and America is growing rapidly.<sup>1</sup>

The following table presents the comparative extent of public and private ownership of railways throughout the world in specified countries, in 1913, the latest year for which figures are available. The table appears in an article on the "Effect of Railway Nationalization on Wages, Hours and Transportation Rates," by Florence E. Parker, in the May, 1918, Monthly Review, of the U. S. Bureau of Labor Statistics, pp. 23-44:

<sup>1</sup> "State Ownership and Operation of Railways," Railway Nationalization Society, London, England.

**MILEAGE OF STATE AND PRIVATE RAILWAYS FOR  
1913, BY COUNTRIES.**

[Source: Archiv für Eisenbahnwesen, 1913, pp. 520-522. Publication of Preussisches, Ministerium der öffentlichen Arbeiten.]

Country	Number of miles of railroad			Per cent of mileage—	
	State owned	Privately owned	Total	State owned	Privately owned
Europe.					
Germany .....	36,597	2,979	39,576	92.5	7.5
Austria-Hungary .....	23,429	5,260	28,689	81.7	18.3
Great Britain .....	.....	23,422	23,422	.....	100.0
France .....	5,606	26,182	31,788	17.6	82.4
European Russia .....	24,549	14,076	38,625	63.6	36.4
Italy .....	9,085	1,866	10,951	83.0	17.0
Belgium .....	2,704	2,770	5,474	49.4	50.6
Luxembourg .....	122	204	326	37.4	62.6
Netherlands .....	1,113	909	2,022	55.0	45.0
Switzerland .....	1,700	1,320	3,020	56.3	43.7
Spain .....	.....	9,532	9,532	.....	100.0
Portugal .....	713	1,139	1,852	38.5	61.5
Denmark .....	1,217	1,125	2,342	52.0	48.0
Norway .....	1,634	286	1,920	85.1	14.9
Sweden .....	2,863	6,136	8,999	31.8	68.2
Serbia .....	634	.....	634	100.0	....
Roumania .....	2,204	133	2,337	94.3	5.7
Greece .....	.....	999	999	.....	100.0
Bulgaria .....	1,199	.....	1,199	100.0	....
European Turkey .....	.....	1,238	1,238	.....	100.0
Islands of Malta, Jersey, and Man .....	.....	68	68	.....	100.0
Total .....	115,369	99,644	215,013	53.7	46.3
The Americas.					
Canada .....	1,771	27,509	29,280	6.0	94.0
United States .....	.....	255,180	255,180	.....	100.0
Newfoundland .....	.....	769	769	.....	100.0
Mexico .....	12,344	3,487	15,831	78.0	22.0
Central America <sup>1</sup> .....	359	1,645	2,004	17.9	82.1

<sup>1</sup> Including Guatemala, Honduras, Salvador, Nicaragua, Costa Rica and Panama.

Greater Antilles .....	150	3,254	3,404	4.4	95
Lesser Antilles .....	.....	336	336	.....	1.00
Colombia .....	110	511	621	17.7	82.3
Venezuela .....	68	565	633	10.7	89.3
British Guiana .....	.....	104	104	.....	100.0
Dutch Guiana .....	.....	37	37	.....	100.0
Ecuador .....	.....	651	651	.....	100.0
Peru .....	1,052	666	1,718	61.2	38.8

**PUBLIC OWNERSHIP OF RAILWAYS**

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		Length miles	Passenger miles	Freight ton-miles	Passenger per ton-mile	Freight per ton-mile
AMERICA:	Bolivia .....	1,502	1,502	....	100.0	
	Brazil .....	6,723	8,793	15,516	43.3	56.7
	Paraguay .....	232	232	....	100.0	
EUROPE & HERZOGTH. PERU:	Uruguay .....	1,638	1,638	....	100.0	
	Chile .....	1,980	1,976	3,956	50.1	49.9
	Argentina .....	3,488	17,139	20,627	16.9	83.1
	Total .....	28,045	325,994	354,039	7.9	92.1
SOUTH AMERICA:		<b>Asia.</b>				
	Asiatic Russia and Siberia	6,799	3,081	9,880	68.8	31.2
	China .....	.....	6,119	6,119	....	100.0
	Japan (including Korea) .....	4,867	1,955	6,822	71.3	28.7
	British East Indies.....	29,299	5,329	34,628	84.6	15.4
	Ceylon .....	.....	603	603	....	100.0
	Persia .....	.....	34	34	....	100.0
	Asia Minor .....	912	2,484	3,396	26.0	73.1
	Portuguese Indies .....	.....	51	51	....	100.0
	Malay States .....	.....	857	857	....	100.0
	Dutch Indies .....	1,536	236	1,772	86.7	13.3
	Siam .....	597	105	702	85.0	15.0
	Other countries .....	.....	2,296	2,296	....	100.0
	Total .....	44,010	23,150	67,160	65.5	34.5
AFRICA:		<b>Africa.</b>				
	Egypt (including Sudan)	2,908	785	3,693	78.7	21.3
	Algiers and Tunis.....	1,802	2,161	3,963	45.5	54.5
	Belgian Congo Colonies. ....	.....	863	863	....	100.0
	Union of South Africa:					
	Cape Colony .....	3,429	545	3,974	86.3	13.7
	Natal .....	1,102	.....	1,102	100.0	....
	Central South Africa	3,311	155	3,466	95.5	4.5
	Rhodesia .....	.....	2,405	2,405	....	100.0
	Colonies:					
	German .....	2,593	.....	2,593	100.0	....
	English .....	1,313	1,041	2,354	55.8	44.2
	French .....	.....	1,998	1,998	....	100.0
	Italian .....	.....	96	96	....	100.0
	Portuguese .....	.....	1,009	1,009	....	100.0
	Total .....	16,458	11,058	27,516	59.8	40.2
AUSTRALIA:		<b>Australia.</b>				
	New Zealand .....	2,859	29	2,888	99.0	1.0
	Victoria .....	3,645	25	3,670	99.3	.7
	New South Wales.....	3,928	167	4,095	95.9	4.1
	South Australia .....	2,079	232	2,311	90.	10.
	Queensland .....	4,521	294	4,815	93.9	6.1
	Tasmania .....	507	194	701	72.3	27.7
	Western Australia .....	2,852	576	3,428	83.2	16.8
	Total .....	20,391	1,517	21,908	93.1	6.9
	Grand total .....	224,273	461,363	685,636	32.7	67.3

The above table does not contain the recent data of course and would be considerably changed if recent statistics were included. For example the United States is credited with no state-owned railroads, whereas in Panama and Alaska there is a considerable publicly owned mileage. In Alaska the government has already (1919), completed and in operation 371 miles of road, the total under construction being 601 miles. Also the city of Cincinnati owns, though it does not operate, 300 miles of standard steam railway. Canada is credited with 1,771 miles of state-owned railways, whereas, as pointed out above, the recent purchase of the Grand Trunk Pacific systems gives that country a total of 17,000 miles of publicly-owned lines. However, the table is the most complete available and serves as a very instructive basis for comparison.

It will thus be seen that government ownership is well on its way to dominating the situation. So far as we know, no nation that has once established government ownership has ever gone back to private ownership while every few years some nation goes over to the government ownership side of the column, and those who already own a part of their systems are absorbing more and more of the mileage. It is only a matter of time till public ownership will be universal.

The results of government ownership of railways for the last twenty-five or thirty years has been a story of successful achievement from the very beginning. In the first place the enormous incomes from railroad operations instead of pouring into the hands of a few irresponsible capitalists as they are under private ownership are turned into service of the common good. The people actually get lower rates, they get better service and more of it. When profits arise rates are reduced, or the service extended and improved. Labor is better treated and therefore contented. Over-capitalization and fraud are practically eliminated; unfair rates and discrimination are unknown—all are treated alike. And finally in spite of heavy indebtedness incurred in the process of nationalization the public roads have been a most remarkable financial success.

All of these points we shall demonstrate and develop in subsequent chapters, contrasting the results of public ownership with those of private ownership in the various phases of the subject.<sup>1</sup>

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<sup>1</sup> On the success of government ownership chapters 6, 7, and 8 of Vrooman's American Railway Problems are good; Pearson's Railway Trusts and the People is a mine of information; while Van Wagener's Government Ownership of Railways is more recent and Russell's articles on "New Zealand's Altruistic Railways" in Pearson's Sept. and Oct. 1912 are especially illuminating.

## CHAPTER IV.

ADVANTAGES OF PUBLIC OWNERSHIP IN  
OPERATION

There are certain inherent advantages in public ownership which in the very nature of the case private ownership finds it very difficult, if not impossible to meet. It is these advantages, no doubt, that in spite of all difficulties and obstacles, and in spite of all opposition carries one nation after another over to the inevitable public ownership solution.

1. Great Economies Possible Under Public Ownership.— Louis Brandeis, now of the Supreme Court of the United States, startled the railroad world a year or so ago by declaring that if the railroad companies were properly managed and operated they might save a million dollars a day—\$365,000,000 a year. Of course railroad men ridiculed the idea and most people thought the statement extravagant. Yet careful students of the subject have been pointing out for years that under a unified and economical operation of the roads vast economies were possible.

Back in 1900, former Senator R. F. Pettigrew, of South Dakota presented an extended brief prepared by David J. Lewis, in which among other things he set forth the possible savings under public ownership.<sup>1</sup>

These figures were based upon estimates and it is interesting to note that when, nearly twenty years later, the government took over the roads nearly all of these economies were actually effected. Mr. Lewis estimated that a total of \$109,129,556 could be saved annually in this manner. The reports of the regional directors submitted in the early part of 1919 showing the results of government control for only a year and not entirely complete at that, showed a total annual saving of \$117,358,435, which was over \$8,000,000 in excess of Mr. Lewis' estimate. It is quite likely that when complete unification and co-ordination is accomplished the savings or economies will be very much greater. Professor Richard T. Ely, in his "Socialism and Social Reform" refers to a railway manager who estimated that the total possible savings would amount to \$200,000,000 a year.<sup>2</sup> This was considerably more than Mr. Lewis' estimate

<sup>1</sup> "Railway Nationalization," Document 53, 56th Congress.

<sup>2</sup> "Socialism and Social Reform," p. 118.

and more than public control so far has been able to show, but it is not at all unlikely that complete unification and co-ordination will make possible that amount of saving every year. The following table presents the economies as they were estimated by Mr. Lewis in 1900, and the economies actually effected under public control during the first year and reported by the regional directors in 1919:

**ECONOMIES POSSIBLE UNDER UNIFIED OPERATION  
OF RAILWAYS.**

Item	As estimated by Lewis in 1900	As actually achieved by Public Control in 1919
1. Unification of terminals and stations .....	\$ 5,000,000	\$ 23,269,620
2. Rerouting freight and passenger service by shortest routes.....	15,000,000	60,196,971
3. Reduction in officials' salaries and reorganization of management...	19,000,000	22,838,358
4. Eliminating advertising.....	3,198,000	4,005,675
5. Other items .....	66,931,556	7,047,811
Total .....	\$109,129,556	\$117,358,435

Mr. Lewis estimated that \$9,000,000 a year could be saved in the reduction of excessive salaries of railway superintendents and "presidents." From the above item 3 it is evident that fully that amount has been realized. From \$25,000 to \$100,000 a year have been paid these officials in spite of the fact that members of the president's cabinet received only \$12,000 a year. Under public ownership in Prussia the president of a railway division gets \$2,750 per year; the Minister of Public Works, who is general head of the government system, \$9,000 per year. On this and other items in the reorganization of the management of the roads the government has effected a total saving of nearly \$23,000,000 annually. Doubtless more yet could be saved under more complete co-ordination. Again, under private ownership each road must strive for and get all the traffic it can without reference to the comparative length of the haul. As a result of this competitive struggle millions of car-miles are travelled by passenger and freight traffic that would be saved if all went by the shortest route. Under public control much of this unnecessary travel has already been eliminated and the result shows a saving of \$60,196,971 annually. Joint use of terminals and consolidation of ticket offices saves another \$23,269,620 and elimination of competitive advertising another \$4,000,000 more.

In this computation nothing is said of a number of items which would still further increase the economies, such as the elimination of the expense of "soliciting business," which is known to be very heavy under competitive conditions; unnecessary legal expenses; legislative and lobby funds; elimination of a considerable cost arising from injury cases.

Thus it will appear that a saving of \$200,000,000 a year in the operation of the roads as a direct result of public ownership is not at all impossible, which will be available either for the reduction of rates, the increase of wages or the improvement of the system.

**2. A Better System for the Improvement and Extension of Railroad Facilities.**—The really great and important railway undertakings of this country have in nearly every case been initiated not by private enterprise, but by the government. Such was notoriously the case in the building of the great transcontinental systems, such as the Union Pacific, Northern Pacific and Southern Pacific. A vast empire of land and millions of dollars were given outright to these corporations in order to get them to build the railroads.

And this shows how empty is the objection raised against public ownership on the ground that the government would not furnish a sufficient initiative required for great, progressive undertakings and for extensions and improvements. As a matter of fact, it was the government in nearly every case and not private capital that made the vast railway systems of today possible.

We have presented the details of these governmental gifts and subsidies to the railroads in a previous chapter. It may be truthfully said therefore that after all it was the government of the United States and its people who really built the railroads of this country. It was the people who took the initiative, or at least whose resources made the enterprises possible. How then shall we say that the government would lack initiative?

And besides there is reason to believe that the government would be much more prompt in the inauguration of improvements and new inventions than private companies are. The experience of foreign nations demonstrates that improvements are made even more rapidly there than here. The reluctance and tardiness with which new inventions and safety devices and similar improvements are adopted by our private railway systems in this country is strikingly illustrated in the case of air brakes, the safety coupler, and grade crossings.

In March, 1893, a federal law was passed requiring the railroads to equip their trains with automatic couplers and air brakes. But the railroads were allowed five years during which to comply with the law. During that time the railroad slaughter resulting from the lack of these safety appliances was allowed to go on with surprising regularity and a shockingly steady increase. At the end of five years, according to the industrial commission's report, certain roads had not equipped two per cent of their cars. The railroads succeeded in securing an extension of two years longer; and finally of three years more. At the end of ten years the Interstate Commerce Commission complained that 31 per cent of the cars inspected were still defective and named seven companies that had been fined for violation of the law and 20 others against which actions for such violations were pending. And the result of this criminal negligence shows itself in the terrible murder of our railway trainmen and passengers as shown above. Meanwhile, every nation operating their roads under public ownership has been able to steadily reduce the death rate upon their roads through the increasing application of all kinds of safety devices.

This fearful sacrifice of life on the part of our railroads to the interests of private gain is shown again in the matter of grade crossings. In most of our industrial centers the railways rush their trains through crowded centers at appalling speed on a grade level. Inevitably fearful accidents result. And the destruction of life from this one cause alone in this country is simply terrific. In Buffalo alone there were more people killed at grade crossings in 18 months than occurred in the whole of Germany for the succeeding period of five years' time. Not long ago in the city of South Milwaukee a fast train plowed through a crowd of workingmen that were crossing the tracks near a factory. At this point there were several tracks, and a train having just passed from one direction had concealed the approach of the fast train from the opposite direction, with the result that seven persons were killed in an instant of time. Similar accidents are occurring everywhere in the country upon the grade crossings.

For years, therefore, every humanitarian principle has been demanding of the railroads the abolition of grade crossings. In the crowded centers these roads should either be elevated or depressed. But in this matter as in all others, the private railroads fight against the public interests. They look first, last and all the time at the cost. They fight to avoid the expenditure necessary to abolish grade crossing and to apply safety devices of all kinds if they think it will be cheaper to pay damages.

A careful study of the history of transportation with respect to the introduction of improved methods whether for safety, or economy, or efficiency, will show that private enterprise has been very slow and reluctant. It was the federal and state governments that stopped rebating and the "free pass" evil. It was the federal and state governments that compelled the railroads to install the automatic couplers, air brakes and block signals. It was the governments that required the companies to provide their engines with ash pans which could be dumped, emptied and cleaned without requiring an employee to crawl under the locomotive. It was state action that provided for boiler inspection, electric headlights, full crews, and finally, it was the federal and state governments that required the private companies to adopt scientific methods of keeping their books and accounts.<sup>1</sup>

Under public ownership in foreign countries, on the other hand, the railroads have been much prompter to apply all of these devices, with the result that they have attained a degree of safety in travel which we have described above.

And as for a system of extensions and the building of new lines, it is clear that the needs of new districts are much more likely to be provided for by public enterprise than by private. Private roads will build only when there is a sufficient traffic to ensure a big profit. The public which has service rather than profit for its purpose will build where the roads are needed. A comparison of railway mileage in the United States shows that the present distribution is very unjust to the various sections. Some are overcrowded with roads and others are almost entirely neglected. This is of course natural under the system of private ownership, since every railway company will try to crowd its systems into the more densely populated parts of the country in order to win from the other companies the paying business. And similarly all the companies will naturally decline to build their roads into the sections that are least populated and therefore need them the most. The welfare of the people demands exactly the opposite policy. And under public ownership this is always attained. We see it splendidly illustrated in New Zealand and in our own postal system here.

**3. Co-ordination with Other Public Utilities.**—Another advantage in the operation of the railroads under public ownership would be that it would then be possible to co-ordinate and unify their operation with other public utilities. The postal

<sup>1</sup> "Why Private Ownership of Railroads Cannot Meet the Demands of Transportation," Lawrence B. Finn, p. 35.

service, for example, would be immediately and greatly benefitted and the possibilities of its service greatly increased. So also would the parcel post. And, what is perhaps still more important, the public ownership of the railroads would make it possible to develop to its proper extent and function the nation's water transportation.

Consider the possibilities of relief and development of our postal service, if the government owned and operated the railroads. Heretofore the service has been restricted and crippled by the private management of the roads. In the first place, the railroads charge the government outrageous prices for the transportation of the mail,—nearly seven times as much as they charge the private express companies, for similar service. But in addition to this they also charge the government high rates for the rent of mail cars. It is found that the government pays in some cases as much for the rent of a single car for one year as it would cost to build the car. The cars last on an average 20 years. And then, as though this extortion were not enough, the railroads add to the burden still another. It has been discovered that in weighing the mails the roads have often falsified the weights. The weighing is done once every four years, and upon that basis the railroads are paid for the handling of the mails. It has been discovered that during the period when this weighing was being done all sorts of frauds were practiced. Thousands of pounds of empty sacks, bags of grain and in one case even a big pile of lead pipe were shipped back and forth and weighed over and over again in order to increase the weight of the mails. Taking all of these things together, it is estimated that the government has been robbed of as much as \$24,000,000 a year by these methods.<sup>1</sup>

Contrast this startling situation with that in the nations that own their railroads. In Switzerland, Germany, Austria, Italy and Belgium the railroads owned by the government carry the mail free of charge, up to one car on each train. In case more than one car is needed, a small charge is made to cover the cost. Thus under public ownership the mails are carried at cost or even below, while in the United States the railroads are robbing the government and crippling the postal system.

In a very true sense civilization and progress depend upon the efficiency of a postal system, which facilitates free intercourse among the people through periodicals, papers, letters and other forms of communication. This has been carefully worked out by Parsons in his "Civilization Tables" in the "Story of New Zealand."<sup>2</sup> He concludes by saying: "Thus the weight and

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<sup>1</sup> "Railways, Trusts and People," pp. 145-155.  
<sup>2</sup> p. 721.

influence of our whole vast railway system stands squarely across the path of our civilization and higher social progress."

The possibilities of this co-ordination of public utilities which are closely related is shown in the case of the parcel post. Up until 1912 the express business, as well as the railroads, in this country was in private hands. As a result the rates charged were excessively high and the service accordingly restricted. Express rates in this country were at that time fifteen times as high as were the parcel post rates in Germany where both the railroads and the express business were in the government's hands. There, under the public ownership of the railroads and the co-ordination of the parcel post the government carries a good-sized package or box of merchandise anywhere within the German Empire for about one cent a pound, insures it, guarantees its safe delivery, collects the price of the purchase, and remits it to the shipper. Such a service is impossible except under public ownership. At that time, and before we had established our parcel post here, it cost 40 cents to send a ten-pound package by express from Boston to New York. A similar service in Germany cost 12 cents. It cost \$1.25 to send a twelve-pound package by express in this country when a similar package could be sent an equal distance in Germany for 12 cents. And, strangely enough, the citizens of foreign countries could, at that time, send packages to any town in the United States more cheaply than we could send them in many cases from one town to another within our own country.

In 1913 we established a sort of a limited parcel post service in this country. But the influence of the private interests was sufficient to prevent a fully adequate system from being established, and, of course, the railroads in private control still operate to restrict its possibilities. But even with these limitations the principle of public ownership applied to the express service showed splendid results. In the first three years the parcel post outstripped the express companies at every point. It handled more business than they did, at a less cost per unit and at about one-half the average rate to the shipper.<sup>1</sup> If now the railroads were also publicly owned with all the restrictive influences they exercise out of the way and the lower rates and better service which has everywhere resulted from public ownership, the parcel post service would certainly be greatly extended and improved.

Furthermore if, as is the case in nearly all other countries, and as has been persistently urged by every Postmaster Gen-

<sup>1</sup> Remarks of David J. Lewis in the House of Representatives, Jan. 10, 1916, on "What Is a Democrat?"

eral but one since the telegraph was invented, the wire systems, both telegraph and telephone, should be taken over by the government and made a part of the postal system the co-ordination with the railroads would become still more desirable and effective, for the wire systems, the mail and the railroads are very closely related and inter-dependent.

But perhaps the greatest gain to be had in the line of co-ordination of utilities in case the railroads were publicly owned would be in the development of water transportation. This nation has 8,465 miles of navigable coast lines on the oceans and the Great Lakes, and 26,400 miles of navigable rivers. The government has appropriated over \$553,000,000 on harbors and water-way improvement, \$69,000,000 of which was spent on canals and canalized rivers.<sup>1</sup> And yet in spite of all these expenditures the waterways and water transportation in this country have nothing of the development they have in such countries as France, Belgium and Germany. In fact the private ownership of the railroads which seeks to keep all the traffic possible on the rails in order to derive the profit therefrom has restricted and strangled water transportation in this country.

The development of water transportation is very important for several reasons, first, because it is less expensive; secondly it relieves the rail traffic and leaves it for other service. It tends therefore to reduce transportation costs and to enlarge the service. And for these reasons all slow-moving freight, commodities that do not require speedy delivery, should be transported by water and for that purpose all possible development of the water ways and water transportation should be made. But so long as the railroads are privately owned the owners very naturally seek to prevent such development because it takes away their business, lowers rates and reduces their profits. Under public ownership that motive would disappear. The "public service motive" taking its place would immediately undertake to develop in every practical way the facilities for water transportation.

That is exactly what happened when suddenly the common danger at the time the nation entered the war forced the "public service motive" to the front. When the nation was compelled to develop to the utmost its transportation capacity it at once sought to develop its long neglected water transportation. And at once Director General McAdoo set about this task.<sup>2</sup> But

<sup>1</sup> "State Socialism Pro and Con," Walling and Laidler, p. 265.

<sup>2</sup> See "Statement of Hon. W. G. McAdoo before Interstate Commerce Committee, Jan. 8, 1919."

if the railroads should go back to private ownership as before the same opposition to the development of water transportation will arise again, from the same source and for the same reasons.

"The striking feature of this movement" says the Report of the United States Waterway Commission,<sup>1</sup> "for the revival of water transportation in Germany, France and Belgium was the nationalization of the waterways." And, also, the report might have added, the nationalization of the railroads which removed the private profit motive for strangling water transportation.

**4. The Financial Success of Public Ownership.**—A most striking illustration of the advantage of public ownership is shown in the financial gains that result. Public ownership of railways has proven immensely profitable to the public everywhere.

The profits earned by some of the public roads are enormous. For example Prussia has cleared vast sums on its railroads every year, steadily increasing from \$83,692,700 in 1898, to \$146,598,500 in 1908.<sup>2</sup> In New Zealand the net revenues now (1918) amount to \$8,223,000 in spite of the fact that it is the settled policy of the government not to make profit but to keep down rates and extend and improve the service.<sup>3</sup> Belgium though at first, during the years that the government roads were getting started (1835 to 1852), having annual deficits, has since that time been making good profits, averaging \$11,750,000 annually. The gains in recent years have made up the losses in the earlier years, and the net gain by the close of 1905 was \$7,000,000. And besides the government now owns a property valued at \$54,130,000 paid for out of the earnings.<sup>4</sup> The public railways in Japan have been very successful financially, earning 18 per cent on a very high valuation allowed for the purchase of the roads.<sup>5</sup> For the year ending June 30, 1911, Australia made a profit of \$32,883,000.<sup>6</sup> Switzerland has made a small profit every year since purchasing the roads except 1908 and 1909, and is setting aside each year a sufficient fund so that within sixty years the roads will have paid for themselves.<sup>7</sup> Even in Italy where the situation was most difficult for public ownership to meet, the net earnings of the government roads in 1906-7 was over \$9,000,000.<sup>8</sup>

<sup>1</sup> U. S. Senate Document No. 469, 62nd Congress, 2nd Session.

<sup>2</sup> "American Railway Problems," Carl S. Vrooman, p. 161.

<sup>3</sup> New Zealand Official Year Book for 1918.

<sup>4</sup> "American Railway Problems," Carl S. Vrooman, pp. 179-180.

<sup>5</sup> "Government Ownership of Railways," Dunn, p. 314.

<sup>6</sup> *Ibid.*, p. 817.

<sup>7</sup> "American Railway Problems," Vrooman, p. 166.

<sup>8</sup> *Ibid.*, p. 170.

However, the principal gain financially under public ownership is not in the profits the public roads make. As a matter of fact profit is not the proper object or function of a publicly owned railroad. The real object should always be public service. And that is generally the case. For example the Official Year Book of New Zealand, speaking of the revenues of the state railways says:<sup>1</sup> "The railways of New Zealand have been looked upon more as adjuncts to the settlement of the country and the development of its natural resources than as an investment from which large profits should directly accrue. For many years a profit of 3 per cent was regarded as sufficient, and any excess over this rate was followed by reductions in passenger charges or in freights."

This is generally the policy under public ownership. Belgium, for example, carefully and specifically provided against the use of her railway system as a profit-making institution. The same is the case with most public ownership governments. What they seek first and foremost is not profit, but service at reasonable rates with proper provision for meeting necessary operating costs and especially ample provision for retiring the debt as rapidly as possible. Prussia is the most notable exception to this rule. There the profits have been so great that a very considerable amount has gone to defray other expenses of the government rather than to the extension and improvement of transportation, reduction of rates and improvement of labor conditions although in all those respects the government policy has been very liberal.

We believe the theory of New Zealand is more nearly the correct one. In that country it is the rule that as soon as the profits on the railroads go above 3 per cent, the rates are reduced. And reductions have been made amounting to as high as 20 and 40 per cent in a single year. If such a reduction as that had been made on the railroads in this country in any recent year, it would have meant a saving of \$500,000,000 to our people. But while the people of New Zealand, because they go on the idea that the railroads should be operated for **service** and not for **profit**, have the advantage of a constantly reducing rate, we in this country have had the disadvantage of constantly increasing rates.

It is the failure of some opponents of public ownership to properly assess these indirect financial gains of public ownership that leads them into error in judging of its success. To these critics unless there is in every case a large percentage of profits the enterprise is a financial failure, forgetting that other gains

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<sup>1</sup> New Zealand Official Year Book for 1918, p. 450.

are vastly more important. Moreover, some opponents attempt to pass unfair judgment against public ownership based on the financial experience of the earlier years of the undertaking.

It is a well known fact that all new enterprises must run at a loss during the first years of their experience—that at first large amounts of capital must be invested and unforeseen deficits met. And this is true whether the enterprise is under private or under public ownership. When railroads are getting started under private ownership, or when they incur losses the Government is required to make up the deficit by means of subsidies, grants, loans or appropriations and in other ways, under private as well as under public ownership. Only under private ownership these concessions are never repaid. Under public ownership, on the other hand, the losses take the form of deficits which are sooner or later repaid in full with interest.

It is absurd, therefore, and very misleading to argue against public ownership on the basis of the financial results and returns of the first few years. And many opponents of public ownership fall into this error.

Prodigious sums of money and other gifts and grants have been turned over to private companies in this country by the federal and state governments, by counties, townships and municipalities to help them get started and over the hard years at first in order that the country might have an adequate transportation system. And practically none of this has ever come back to the people or the government except in indirect benefits.

Under public ownership, on the other hand, all contributions from the public funds, all appropriations and all provisions for deficits are charged up to the accounts, reckoned in as necessary parts of the investment and ultimately paid off out of the earnings.

But the greatest financial advantage of public ownership lies in the possibility of getting rid of the tremendous burden of interest on the capital account. In the first place public ownership would sooner or later eliminate the fictitious values and overcapitalization which would save the people several hundred million dollars annually.<sup>1</sup> Secondly, the people would effect another great saving under public ownership by reason of the lower rates of interest at which the capital could be secured. At 2 per cent, estimating the actual value of the railroads at \$15,000,000,000, this would amount to \$300,000,000 annually; or, if we estimate the saving on the total capitalization now claimed by the

<sup>1</sup> Assuming that there is \$7,000,000,000 of fictitious value or watered stock in the present capitalization the saving at 6 per cent would be \$420,000,000 in interest charges annually.

companies, viz., \$21,000,000,000, the saving would be \$420,000,000 annually. And, finally, by the usual process by which the public debts are gradually retired by paying off a portion each year out of the earnings of the roads the entire debt and its interest burden would be wiped out in the course of sixty or possibly forty years. In other words when the system of public ownership is fully established so that the people are securing the full advantages it will mean a saving of \$1,200,000,000 annually figured in the present basis of valuation and earnings.

From whatever point we view the matter public ownership carries with it tremendous possibilities of financial advantage to the nation and its people.

## CHAPTER V ADVANTAGES TO LABOR

There are 1,654,075 workingmen exclusive of officers employed upon the railroads of this country. Clearly the question of the conditions of labor of so large a number of our citizenship is a matter of great public concern. Public ownership, we believe, is certain to effect a very decided improvement in the conditions of labor. It is a notable fact, verified, we believe, almost everywhere, that governments are more humane in the treatment of labor than are private employers. For example, if we compare the railway mail clerks and postal carriers who work for Uncle Sam with private employes in similar lines, we find that the hours of labor averaged  $2\frac{1}{2}$  hours less per day and the wages averaged \$375.00 per year more.<sup>1</sup>

The federal government has been a pioneer in reducing the hours of labor of its employes. In 1840, at a time when in private employment 11 or 12 hours was the rule, an order of the president provided for 10 hours in all public employment; and again in 1868, after private employment had reached the standard of 10 hours, Congress reduced the hours for public employes to 8. The hours of clerical and official force are  $6\frac{1}{2}$  to  $7\frac{1}{2}$  hours per day.

State governments and city authorities have followed the federal government in the adoption of the eight hour day. New York was the first city to introduce it in 1870. At the present time there are eight or nine states which prescribe the eight hour day on all public works.<sup>2</sup>

As a rule the state and national governments are more likely to encourage and favor the organization of labor.<sup>3</sup>

Speaking of the better treatment of labor under government ownership in foreign countries, Ernest Bradford says in the Annals of the American Academy of Political and Social Science, March, 1907; "Toward its employees the policy of the state has been liberal. Pension funds are provided for sick and disabled employees, and for those grown old in the railway service of the state. To these funds every workman contributes and the administration pays an equal amount. In 1900 the old age pension fund amounted to \$15,000,000. Dwellings are also erected for workmen, who are obliged to live near their work and are unable to obtain houses at a reasonable rate, which are rented to them at low figure. In 1899, 30,840 such dwellings had been erected out

<sup>1</sup> "City for the People," Pearson's, tables on pp. 164-165.

<sup>2</sup> "Trades Unionism and Labor Problems," Commons, p. 478.

<sup>3</sup> "Railways, Trusts and the People," p. 463.

of the funds at ordinary disposal; in 1905, the number had increased to 40,800. Moreover, hours of labor are strictly limited for all classes of employes, long continuous unrelieved work being forbidden by law, and the law enforced."

From this it is quite natural to expect that the wages and hours of labor would be better under public ownership than private. And this is exactly what we find.

1. **Better Wages.**—It is claimed by the opponents of public ownership that railway wages are much higher on our American railways than on publicly owned roads in other countries. One writer, Samuel O. Dunn, editor of "The Railway Age," author of "The American Transportation Question," "Government Ownership of Railways" and other publications on this subject, and a writer assuming to speak with authority and upon the basis of thoroughly reliable information says: "Our railways pay twice as high wages as those in Europe."<sup>1</sup>

Such statements are misleading to say the least. It is true that wages are higher in some private roads than on some public roads, but they are not as high on some private roads as on some public roads. For example, the wages are \$43.67 a year higher on the public roads of Western Australia than upon the private roads in the United States;<sup>2</sup> and \$47.95 a year higher on the public roads in Germany than on the private roads in England. And if we take the five countries having the highest wages under private ownership (including the United States) and compare them with the five countries having the highest wages under public ownership we find that the average wage is \$119.72 a year higher under public than under private ownership.

These facts are derived from the following table, which is made up from data compiled by the Bureau of Railway Economics<sup>3</sup> with the exception of the figures for England, Wales and Scotland, which are taken from the Monthly Review of the United States Bureau of Labor for May, 1918.<sup>4</sup> These figures are not in all respects available for exact comparisons, due to the fact basis for comparison and seems at least to show the general that in nearly all cases the ownership is more or less mixed public and private, but it is the nearest approach we have to a situation.

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<sup>1</sup> "Regulation of Railways," 1918, p. 152.

<sup>2</sup> All comparisons are made on the basis of pre-war wages.

<sup>3</sup> Comparative Railway Statistics United States and Foreign Countries, 1918, p. 70.—Bureau of Railway Economics, Washington, D. C.

<sup>4</sup> "Effect of Railway Nationalization on Wages, Hours and Transportation Rates," Florence E. Parker, p. 28.

**AVERAGE YEARLY COMPENSATION OF RAILWAY EMPLOYES IN VARIOUS COUNTRIES, 1913.<sup>1</sup>**

Private Ownership.	Public Ownership.
United States.....\$756.83	Western Australia.....\$800.50
Canada .....647.91	New Zealand (1912).....632.16
Sweden (1912).....400.00	New South Wales.....618.62
England <sup>2</sup> and Wales.....361.40	Victoria .....623.24
Scotland <sup>3</sup> .....318.74	Germany .....408.95
	France .....400.89
	Italy .....376.81
	Switzerland .....365.08
	Holland .....341.52
	Austria .....335.90
	Hungary (1912).....300.41
	Roumania (1912).....249.40
	Russia (1910).....211.40
	Japan .....112.56

Moreover, in comparing the wages in the United States with those in other countries we must take into consideration the difference in the general wage level and standards of living and also the various concessions and bonuses which the employes of the public roads receive which those of the private roads do not. For example, the average wage on the public roads of Germany is \$47.55 per year more than on the private roads of England and Wales, and \$90.21 per year more than upon the private roads of Scotland. But the employe of the government railway in Germany gets other concessions that bring up the returns to labor. Besides allowances for house rent the government spends \$700,000 per year on its railway employes in the form of pensions; another \$350,000 for the widows of employes and \$15,000 for burial benefits. Thus the German employes have, in addition to their wages, an allowance averaging over \$100 per year towards house rent, besides insurance against accidents, sickness, and death, so that the returns to labor are certainly more than \$150 per year higher on the government roads in Germany than on the private roads in England. And that does not really show the full advantage of public ownership in this respect because a dollar in wages means more in Germany than in England—the general wage level is higher in England.

The average wages on the American roads is placed at \$756.83 for 1913.<sup>4</sup> But even this is misleading because it includes the big salaries of the "general officers." These averaged \$15.67 a day in 1913, while the same year there were 376,871 trackmen who received an average of \$1.58 a day. These "salaries" of the

<sup>1</sup> Comparative Railway Statistics United States and Foreign Countries, 1913, p. 70.  
Bureau of Railway Economics, Washington, D. C.

<sup>2</sup> "Effect of Railway Nationalization on Wages," Florence E. Parker, p. 23.

<sup>3</sup> Computed by the Bureau of Railway Economics in their "Comparative Railway Statistics," p. 70. Dunn in his "Regulation of Railways," p. 32, gives it as \$758.

"general officers" are sometimes enormous and are really not salaries at all but a share of the general exploitation. For example Senator Depew is said to have drawn \$100,000 per year when he was president of the New York Central.<sup>1</sup> It would be quite misleading to include such "salaries" in the returns to labor and call them "wages" and thus make it appear that the average wage is so much higher. The government roads pay their presidents about \$2,500 per year. As late as 1914 there were 538,927 railway employes, nearly one-third of the entire number, who received less than \$2.00 per day.<sup>2</sup>

It is important to emphasize this matter since there is so much being said about the high wages and "enormous" earnings of railway employes in this country. The Statistical Abstract gives each year the average daily wages of the various classes of railway labor and the number employed in each class in tables running back for seventeen years. The following was the situation in 1914:<sup>3</sup>

AVERAGE DAILY WAGES AND NUMBER OF EMPLOYEES  
IN EACH CLASS, 1914.<sup>4</sup>

Class of employees.	Number Employed	Daily Wage
General officers .....	5,740	\$16.06
Other officers .....	11,153	6.48
General office clerks.....	87,106	2.54
Station agents .....	39,147	2.33
Other station men.....	163,603	1.98
Enginemen .....	62,021	5.24
Firemen .....	64,959	3.22
Conductors .....	48,201	4.47
Other trainmen .....	136,809	3.09
Machinists .....	56,468	3.27
Carpenters .....	72,923	2.66
Other shopmen .....	256,133	2.36
Section foremen .....	4,977	2.20
Other trackmen.....	337,451	1.59
Switch tenders and watchmen.....	37,873	1.71
Telegraphers and dispatchers.....	40,464	2.56
Floating equipment .....	13,019	2.35
All other employes and laborers.....	232,249	2.20
Total .....	1,710,296	

From the above it appears that in 1914 there were 337,451 persons employed on the railways of the United States who re-

<sup>1</sup> "Railways, Trusts and the People," p. 464.

<sup>2</sup> Statistical Abstract, 1917, pp. 312, 314.

<sup>3</sup> Statistical Abstract, 1917, pp. 312, 314.

<sup>4</sup> "Statistics of Railways 1906-1916," pp. 28-29.

ceived only a little over \$1.50 a day (\$1.59); there were 538,927 employes who received less than \$2.00 a day; and there were 1,284,945 or a little more than three-fourths of all employed who received less than \$3.00 per day—less than \$1,000 a year. Apparently the nation is not threatened with an overproduction of millionaires from that source.

The following table gives the average compensation per year and the number employed in each class in 1916.

#### AVERAGE ANNUAL COMPENSATION OF RAILWAY

##### EMPLOYES BY CLASSES, 1916.<sup>1</sup>

Class of employes.	Average number of employes	Average annual com- pensation
General officers—\$3,000 per annum and over .....	4,247	\$6,461.73
General officers—below \$3,000.....	5,112	1,590.73
Division officers—\$3,000 per annum and over .....	1,115	3,713.63
Division officers—below \$3,000.....	9,289	1,705.06
Clerks, \$900 and upward.....	62,826	1,147.56
Clerks, below \$900.....	102,532	661.30
Messengers and attendants.....	8,365	454.02
Assistant engineers and draftsmen.....	9,049	1,111.87
M. W. and S. foremen.....	7,426	1,078.44
Section foremen .....	43,305	774.19
General foremen, M. E. department.....	1,654	1,485.68
Gang and other foremen, M. E. dep't.....	16,262	1,182.05
Machinists .....	37,386	1,113.20
Boilermakers .....	12,245	1,151.47
Blacksmiths .....	8,026	999.38
Masons and bricklayers.....	1,093	924.47
Structural iron workers.....	736	977.29
Carpenters .....	49,858	820.15
Painters and upholsterers.....	10,749	811.27
Electricians .....	8,232	929.99
Airbrake men .....	5,529	874.57
Car inspectors .....	18,363	906.78
Car repairers .....	65,792	777.09
Other skilled labor.....	47,321	882.70
Mechanics, helpers and apprentices.....	77,838	644.93
Section men .....	267,195	471.13
Other unskilled labor.....	101,121	576.80
Foreman of construction gangs.....	2,437	888.09
Other men in construction gangs.....	37,901	498.71
Traveling agents and solicitors.....	6,043	1,488.27
Employes in outside agencies.....	1,998	994.52
Other traffic employes.....	705	1,123.10
Train despachers and directors.....	5,099	1,608.66

<sup>1</sup> "Statistics of Railways 1906-1916," pp. 28-29.

Telegraphers, telephoners .....	19,562	811.97
Operators of interlockers.....	7,851	830.03
Lever men .....	3,409	733.43
Telegrapher clerks .....	11,012	781.32
Agent telegraphers .....	21,086	817.52
Station agents .....	16,214	881.60
Station masters and assistants.....	637	1,055.18
Station service .....	104,052	623.20
Yard masters .....	3,501	1,588.51
Yard master assistants.....	2,019	1,523.86
Yard engineers .....	15,173	1,578.46
Yard firemen and helpers.....	15,456	968.46
Yard conductors .....	14,594	1,398.13
Yard brakemen .....	37,956	1,181.01
Yard switch tenders.....	4,897	734.06
Other yard employes.....	3,918	547.27
Hostlers .....	7,638	999.94
Engine house watchmen and laborers...	49,415	675.06
Road freight engineers.....	31,056	1,831.80
Road freight firemen.....	32,934	1,112.69
Road freight conductors.....	25,361	1,579.00
Road freight brakemen.....	62,538	1,032.30
Road passenger engineers.....	13,952	2,068.60
Road passenger firemen.....	13,568	1,361.80
Road passenger conductors.....	11,270	1,807.57
Road passenger baggagemen.....	5,844	1,053.67
Road passenger brakemen.....	15,345	998.93
Other road trainmen.....	3,322	798.17
Crossing flagmen and gatemen.....	16,136	475.90
Drawbridge operators .....	1,349	676.69
Floating equipment employes.....	10,554	837.27
Express service .....	13	565.77
Policemen and watchmen.....	8,104	756.21
All other transportation employes.....	6,900	644.44
All other employes.....	20,590	590.41
Total .....	1,654,075	848.79

This of course was before the very decided increases granted to railway employes after the government took over the roads. Since then the wages have been higher, of course, but even now they are not so high as some of our apologists of the private interests would have us believe. The Railroad Wage Commission appointed by the government to make a study and report on this matter said on January 1, 1919:<sup>1</sup>

"It has been a somewhat popular impression that railroad employes were among the most highly paid workers, but figures, gathered from the railroads, dispose of this belief; 51% of all employes during December, 1917, received \$75.00 per month or less, and 80% received \$100.00 per month or less. Even among

<sup>1</sup> Quoted by Director General McAdoo in his statement to the Interstate Commerce Committee, Jan. 3, 1919, p. 20.

the locomotive engineers, commonly spoken of as highly paid, a preponderating number received less than \$170.00 per month, and this compensation they have obtained by the most compact and complete organization, handled with a full appreciation of all strategic values. Between the grades receiving from \$150.00 to \$250.00 per month, there is included less than 3% of all the employes (excluding officials), and these aggregate less than 60,000 men out of a grand total of 2,000,000.

"These it is to be noted, are not pre-war figures; they represent figures after a year of war and two years of rising prices. And each dollar now (the report was made April 30, 1918), represents in its power to purchase a place in which to live, food to eat, and clothes to wear, but 71 cents as against the 100 cents of January 1, 1916."

It must also be remembered that while the average wage of the railway employe in this country is stated as \$756.83<sup>1</sup> per year for 1913 there are whole sections of the railway employes who are employed very irregularly. The section hands for example often have work but a half of the year. Others are also employed but part of the time. And these are generally the poorest paid. The commissioner of labor in his Fifth Annual Report found that on 60 roads 224,000 men were employed on an average of only 147 days in the year and received only \$234 average actual earnings. So while their wages as reported by the Interstate Commerce Commission and reiterated by the railroads may have been a daily wage of from \$1.75 to \$3.00 in 1900 the actual returns they were able to earn in the year were very much less than that on the average and the same is doubtless true to a greater or less degree every year.

### The Final Test

The final test as to the effect of public ownership upon wages lies in the comparison of wages in a given country where conditions are practically the same under private ownership and under public ownership. The point to be decided is not whether wages under private ownership are higher in this country than they are under public ownership in some other country where the general conditions may be entirely different, but whether the change from private ownership to public ownership in a given country results in increased returns to labor. And in this respect the evidence is conclusive.

In every case so far as we are able to learn the change from private to public ownership has always resulted in increased

<sup>1</sup> Estimated at \$826 for 1914; \$827 for 1915, and \$848 for 1916, by the Bureau of Railway Economics.

wages. New Zealand after establishing the government ownership of the railroads has steadily raised the wages of the employees since 1896, amounting in some cases to as much as 60 per cent.<sup>1</sup> Switzerland upon taking over her railways raised the wages 15 per cent.<sup>2</sup> And this is the general and universal rule. We have recently had a study of this very question made by Florence E. Parker in her article on "The Effect of Railway Nationalization on Wages, Hours and Transportation Rates" above referred to.<sup>3</sup> This study covers the conditions in four countries, viz., France, Italy, Switzerland and Japan. And in the summary of this article the author concludes as follows: "The data secured in this study show that in each of the four countries studied an increase of wages has taken place either co-incident with or shortly after State purchase. In France an increase was given in the wages of employees of the Western Railroad when that line was taken over, but since no data could be secured showing their average wage before 1908, it is impossible to calculate just what the per cent of increase was. In Italy, the increase, from 1903 to 1908, amounted to 17 per cent; in Switzerland, from 1898 to 1910, to 28.9 per cent; and in Japan, from 1905-06 to 1907-08, to 7 per cent."

Thus it appears that practically everywhere the change from private to public ownership means better wages for labor. That such would be the case in this country is certain. Every measure presented in Congress for the nationalization of the roads has specifically provided for an increase of wages. The first bill was presented by former United States Senator R. F. Pettigrew of South Dakota on January 3, 1900; the second one in February, 1907,<sup>4</sup> the third in 1912, and more recently, the Sims Bill which embodies the so-called Plumb Plan of the Railway Brotherhoods for the public ownership of the railroads introduced in Congress in 1919, of course provides for very decided increases in the returns to labor.

And finally it must be noted that the United States Government in "taking over" the railroads in 1918 began at once a very decided policy of increasing wages which has been followed consistently and to a most remarkable extent. The total aggregate increases granted amounted to between \$600,000,000 and \$700,000,000 a year over previous amounts.<sup>5</sup>

<sup>1</sup> "Story of New Zealand," Parsons.

<sup>2</sup> "Railways, Trusts and the People," p. 365.

<sup>3</sup> In Monthly Review of U. S. Bureau of Labor Statistics for May, 1918, pp. 23-44.

<sup>4</sup> "Railway Nationalization," Document 53, 56th Congress.

<sup>5</sup> "Government Ownership of Railways," Speech on Senate Bill No. 8436.

\* Statement of Hon. W. G. McAdoo before the Interstate Commerce Commission Jan. 8, 1919, p. 20.

2. **Shortened Hours of Labor.**—The contrast between public and private ownership in the matter of hours of labor is even greater. Up to recent years the hours of labor on our American railroads were tragic. Men have been worked to the very limits of human endurance. What the average number of hours per day was we do not know. But it is known that thousands of men have worked 12 to 18 hours per day; that it was no unusual thing for them to be kept on duty 20 and even 36 hours without relief. Indeed, in extreme cases 40 to 48 hours of continuous service have been performed. In a personal investigation of the hours of labor of telegraphers in Wisconsin the author found the average about 14 per day; 20 to 36 hours were not at all uncommon, and in a few cases men had been on duty 72 consecutive hours without rest.

Engineers have told the writer of cases in times of great rush when, having been on duty continuously for 20 to 30 hours, they have stood up with hands on the throttle in order to keep from falling asleep; firemen "so dead for sleep" that engineers had to go repeatedly to their side of the engine and roughly arouse them to keep them at work; engineers blowing the whistle as a train neared a city and falling asleep without "shutting off" the engine, to be awakened by their train rushing by the depot.

Such things are appalling to contemplate. That they are facts and that they are very common is certain. A railway fireman once remarked to the writer that not a hundredth part of the perilous things and hairbreadth escapes on railroads is ever dreamed of by the public. If they knew, said he, they would ride very uneasily.

Similar conditions prevail in England where the roads are privately owned. In 1905 the Board of Trade found in one month 3,971 instances of engineers and firemen working more than 18 hours, and 20,273 more than 15 hours, and there are plenty of cases of "days" ranging from 20 to 33 hours, if you can imagine a 33-hour day.<sup>1</sup>

Contrast all this with the conditions under public ownership. While the hours of labor under private ownership in the United States and England were 14 to 16 and ran up to 18 and sometimes 20 the hours of labor on the publicly owned roads were limited to 8 and 10 or 12 at most. In Italy on the government roads 10 hours is the limit; in Switzerland 8; in New South Wales 8; in Prussia 11 for general employes, for switchmen 8, and engineers 10. In short one could say that by 1905

<sup>1</sup> "Railways, Trusts and the People," p. 467.

or 1906 the eight-hour day had been pretty well established in railway employment under public ownership, while under private ownership the employes were still working from 14 to 18 hours.

Previous to this, it is true, some of the states here in America had tried now and then to regulate these matters. The laws were seldom enforced, it seems, but even if they were, what did it mean? In Georgia the law used to limit the hours to 13 per day; in Ohio to 15; Colorado and Nebraska to 18; in Minnesota to 20; and in New York and Michigan 24. "There is something pathetic in such rules and regulations. If it was necessary for New York and Michigan to forbid the companies working their men longer than 24 hours without an eight-hour rest, the questions naturally arise, How long would the companies work the men if unrestrained, and How much can the railway men stand anyhow?"<sup>1</sup>

It was as late as 1907 when Senator LaFollette of Wisconsin made his investigation and astonishing revelations in regard to the extremely long hours of labor exacted of the railway employes in the United States.

Mr. LaFollette was urging the passage of his bill for the limiting of hours of labor on the railroads to sixteen per day or at least sixteen hours of consecutive service. In support of the measure he presented an astonishing array of facts showing to what extreme hours of labor railway men were being subjected at that time and how these extreme hours often resulted in most serious and disasterous accidents. Page after page of the Congressional Record is filled with the incidents reported by Mr. LaFollette like the following:

"Collision; engineman asleep; twenty hours on duty." "Collision; engineer and conductor running train at high speed in block entered under caution signal—thirty-four hours on duty." Another collision, "Brakeman sent back to flag train, sat down and fell asleep—twenty-three hours on duty." Another; "Failure to protect rear end of train—thirty hours on duty." Another, "Engineman asleep—forty-eight hours on duty," etc., etc.<sup>2</sup>

Senator LaFollette succeeded finally in forcing his measure through the Senate, but the railway influences finally succeeded in defeating it in the House. However, he kept up the fight and in spite of the opposition succeeded in getting the measure through. So strenuously did the companies resist the

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<sup>1</sup> "Rys. T. and P." p. 467.

<sup>2</sup> Congressional Record, 49th Congress, Second Session, Jan. 8, 1907, p. 810 ff.

effort to limit the hours of railway labor to sixteen hours a day in 1907.

This sixteen hour law remained as a sort of basis so far as legislation is concerned down to 1915. Early that year the Railway Brotherhoods began their fight for a "basic eight-hour day" which they kept up with increasing earnestness all through the years of 1915 and 1916. After repeated conferences and efforts to reach an agreement the railway brotherhoods finally gave up negotiations and decided to call a general strike upon all the railroads of the country on September 4. Meanwhile the President of the United States had intervened and submitted a compromise proposition which the companies had refused to accept. So on September 2, 1916 Congress finally passed the famous Adamson Act establishing the "basic eight-hour day" with the ten-hour day's pay and overtime at a pro rata rate. This law was hurried to a test before the Supreme Court of the United States and declared constitutional on March 19, 1917, and on the same day a final settlement was reached between the companies and the employes, but not, however, until after notices calling for a progressive series of strikes had actually been issued.

Thus the basic eight-hour day was finally secured upon the railways in America, fully ten years after the railway employes in other countries operating under public ownership had come to the eight-hour basis, and then only after a series of bitter struggles that repeatedly threatened to paralyze the entire transportation system of the nation.

3. **Rest Days, Holidays and Vacations.**—These also are much more liberally provided under government ownership. In Germany every active employe is entitled to two holidays per month, and trainmen must be permitted to rest at their homes not less than 10 consecutive hours daily; in Switzerland 52 holidays are allowed each year in addition to a continuous vacation of 8 days.<sup>1</sup> The same tendency is shown in the treatment of the federal employes of our government at Washington in contrast to the private employes. The government gives each one 30 days' vacation per year with full pay. In addition they are allowed 30 days per year for sick leave and, of course, they get the usual eight holidays a year and 52 Sundays. They also have 52 half-holidays, Saturday afternoons. This leaves 219 working days out of 365 in the year to work only from 9 a. m. to 4 p. m.<sup>2</sup>

Contrast this with the treatment of employes by the railroads. By far the larger part of the railway employes here work

<sup>1</sup> "Foreign Laws relating to R'y Employes," Bulletin of the Bureau of Labor.  
"The World's Work," June, 1903.

every Sunday (without extra pay) and every day in the year; a great proportion work at night, and in cases of accidents and emergencies, which are altogether too frequent, must work Sundays and nights as well as days.

**4. Better Housing of the Employes.**—In at least some of the foreign countries the governments provide another advantage for their employes which is unique and suggestive. In New Zealand the government itself builds houses and rents them to its employes. This protects them from excessive rents by affording a means of escape from the private landlord. Matters of this kind are a decided advantage to labor by helping to reduce the cost of living.

And besides the New Zealand government makes a special provision for workingmen's homes by advancing them money with which to build.<sup>1</sup> Germany does even better, having built over 40,800 dwellings which are rented to the working men at a low figure.<sup>2</sup>

The low fares granted to workingmen also enable them to live in better quarters outside of the crowded centers. Workingmen going ten or twelve miles out, as many do, travel about three miles for one cent or a four-cent fare each way.

All the employes of the Prussian state railway receive allowances for house rent amounting to \$28 a year for the lowest class; \$75 for the fourth class; \$125 for the third class; \$160 for the second class; and \$200 for the first class. Thus again the government ownership of railroads is used as a means of protecting the working class in the matter of cost of living.<sup>3</sup> The railway administration of Prussia owned 30,840 houses of this kind at the end of 1899; in 1905 the number had increased to 40,800<sup>4</sup> while loans of public money to the amount of \$135,000 have been granted to building societies, which in this way have provided 1,266 dwellings for the working people.<sup>5</sup>

Thus it will be seen that the public ownership of railroads serves to improve the conditions of the working class not only in the matters of wages and hours, but in many other directions as well.

**5. Accident Insurance, Sick Benefits and Old-Age Pensions.**—The contrast between public and private ownership is shown again in the matter of the treatment of the workers in case of accident resulting in injury or death. The establishment of

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<sup>1</sup> "The Story of New Zealand," Parsons, p. 222.

<sup>2</sup> "Annals of American Academy of Political and Social Science," March 1907.

<sup>3</sup> "Rys. T. and P." p. 349.

<sup>4</sup> "Prussian Railway Administration," An. Am. A. Pol. & So. Science, March 1907.

<sup>5</sup> "The German Workman," Dawson, p. 118.

public ownership is almost always followed by the inauguration of a system of accident insurance and old-age pensions. Under private ownership, on the other hand, it requires a constant legal fight and interminable litigation to compel the railroads to provide for the killed and injured. And this is all the worse because the management of our private roads is so much more reckless than that of government roads.

It was less of a risk to life and limb to enlist in the union armies during the rebellion than it is to enlist in the train service of the United States. It is seven times as dangerous to be a railway employee in the United States as in Austria-Hungary;<sup>1</sup> six times as dangerous as it is in Belgium; four times as dangerous as it is in Austria.<sup>2</sup> And yet, while the work is so much more murderous, one is tempted to say it is about six times as hard to recover damages or assistance in case of accident here as it is in the European countries that own their roads. In this country the employers' liability laws are entirely inadequate and unjust. Moreover, they are so drawn as to compel endless litigation to secure any returns at all. And even if a case is proven, the maximum amount recoverable at law is in the most cases only \$5,000 to \$10,000. In Europe the amount paid by railways for an employee's life has been as high as \$72,000.

But in any case when an employee is killed or injured it ought not to be necessary for him or his relatives to be forced to once to engage a retinue of legal talent to get what belongs to him. A liability law however good is not what is required. There should be an accident insurance which would give relief to the injured without delay or litigation. If a worker must go to law to recover damages the chances are the case will be delayed, appealed and finally lost. And even if he wins the lawyer gets the lost of the money. What is needed is accident insurance, sick benefits, and old-age pensions. And this is what practically every country that owns its railroads has established. In Germany, 3,196,000 workers enjoy the old-age pensions; 10,319,564 have sick benefits and 17,366,000 have accident insurance. Belgium, Switzerland, Sweden, New Zealand, indeed all public ownership countries, have this form of insurance, and in nearly every case it dates from the time of the establishment of public ownership.

The benefits include an annuity during life of the retired employee, pensions to widows and minor children after his death, sick benefits and various payments in case of accident resulting in in-

<sup>1</sup> Encyclopedia of Social Reform, "Railways."

<sup>2</sup> "R'ys, T. & P.," p. 468.

jury. In Prussia alone the old-age pensions fund amounted to \$15,000,000 in 1900.<sup>1</sup>

Up to 1912 only four railroads in the United States had adopted pensions, and they with such limits and restrictions as to remove much of their value. Most of the systems do nothing whatever in this respect. Some of the roads compel their employes to sign away any claim to damage in case of injury as a condition of employment; others require their employes to take out membership in certain relief associations which the companies themselves control. Membership in these associations releases the companies from liability. So by every device the private roads seek to keep their employes from recovering damages for injuries and killings, while the recklessness of management, the wounding and injuring of workingmen goes on.

**6. Organized Labor Favors Public Ownership.**—The advantages to labor under public ownership are so great and so well known, at least among the working classes, that organized labor in every important country has, at one time or another, declared for public ownership. This fact is pretty reliable evidence. The trades unions are as a rule conservative in matters of this kind, and do not take an avowed position with reference to governmental policies until after they are pretty well assured that it is to their advantage.

The position of organized labor in Continental Europe is well known. It has stood for public ownership for nearly half a century. In Switzerland, when the question of establishing government ownership was agitating the nation, the trades unions, including the powerful organization of railway employes, all actively favored the law. The central body of the Swiss unions "decided unanimously to ask the societies to work to the measure of their power in favor of the adoption of the purchase law."<sup>2</sup> No doubt the influence of these unions had considerable weight in the campaign. And the workingmen were not disappointed in the results, for as soon as the government took over the railroads it at once advanced the wages 15 per cent.

The trades union convention of England at its session in 1905 adopted without debate a resolution urging its parliamentary committee to "bring all possible pressure to bear upon the members of parliament and other public representatives, so that public bodies may be empowered to enter into and carry on any work or business in behalf of the people so as to steady the

<sup>1</sup> "Story of New Zealand," Appendix III, page 790, on "State Annuities;" "Bismarck and State Socialism," Dawson, chaps. VII and IX; "The German Workman," Dawson; "Railway Nationalization," p. 51.

<sup>2</sup> "Railways, Trusts and the People," p. 360.

volume of trade and provide work at fair rates for those who would be otherwise idle."<sup>1</sup>

The American Federation of Labor, at its annual convention in December, 1896, passed the following resolution: "Resolved, that the sixteenth annual convention of the American Federation of Labor urges upon all the members of affiliated bodies that they use every possible effort to assist in the substitution in all public utilities—municipal, state and national, that are in the nature of monopolies—of public ownership for corporate and private control."<sup>2</sup> And such is coming to be a pretty general conviction among organized laborers everywhere.

In every respect, therefor, the public ownership of railroads means an improvement in the conditions of labor. The labor unions and the more thoughtful of the working class everywhere realize this and therefore are urging its adoption.

<sup>1</sup> Civic Federation Report Part II., Vol. II., p. 58.

<sup>2</sup> Quoted in "City for the People," p. 165.

## CHAPTER VI

### ADVANTAGES TO THE PUBLIC

Transportation is one of the most vital and fundamental requirements of modern life. To the individual and to the nation it is absolutely essential. Everything we eat, everything we wear, everything we use is shipped to us over the transportation lines and everything we produce goes back over the same lines. The cost of transportation is reflected in the cost of every commodity in the country. An increase in the cost of transportation is immediately reflected in an increase in the cost of living. And what is more it is not only that the increased cost of transportation is passed on to the general public, but in addition to that there will be added an increased profit by every firm or concern that handles the goods all down the line. In a speech delivered at St. Louis in June, 1919, Director General Hines stated that an advance of \$300,000,000 in freight rates would be reflected in the cost of the finished article to the consumer to the extent of \$1,500,000,000, or five times the amount of the actual increase in rates. Mr. Robert W. Woolley, member of the Interstate Commerce Commission, in an address before the American Academy of Political and Social Science in Philadelphia, October 18, 1919, said, "Investigation made in normal times amply justifies such a prediction. For instance, when an increase of 10 cents per ton was granted in anthracite coal in 1902, the price per ton to the consumer advanced 50 cents — and it never came down."

On this basis an increase of 25 per cent in freight rates, which would amount to \$875,000,000, would mean an increased cost of living amounting to \$4,375,000,000. That is the increased price the consumer would have to pay for what he eats, wears or uses because when he buys a finished article he must pay all the accumulated increases. That is what it will mean if the railroads go back. Are we prepared for it? Can the people of this country endure it? "We are at the cross roads," says Mr. Woolley. "Return the railroads and increase freight rates, and I fear no measure before the House or the Senate today can save us."

Moreover, the development of our commerce and industry, the prosperity of our cities, the opening and development of new territory all depend upon adequate transportation. And,

finally, as we have had impressed upon us very forcibly of late, in times of war victory depends upon efficient transportation.

Looking at the problem from the standpoint of the needs and necessities of the general public what is needed is an adequate system of transportation that keeps pace in its extensions and improvements with the growing needs of the country; efficient operation that guarantees safety to person and property; just and reasonable compensation and conditions of labor; and service at cost. These things, as we have shown, have not been secured in the past under private ownership and, for the most part, as we believe, are simply impossible under private ownership.

It might be possible, for example, under private ownership, to have higher wages than we now have, although as a matter of fact we do not. We might have lower rates, but we do not. We might have better and safer service, although we do not. But when it comes to service at cost, that is simply impossible under private ownership as all will at once agree. So then, we may say, that public ownership is the only means by which in the past we have secured those elements in transportation that are essential to the general welfare and that the most important of all, viz.: service at cost, cannot be secured in any other way.

1. **Lower Rates.**—Public ownership will certainly reduce the cost of transportation. It cannot be done in any other way if we may judge by the experience of the past in this and other countries. That public ownership will reduce freight and passenger rates is proven, first, by the fact that wherever the change has been made from private to public ownership, rates have been reduced; secondly, by the fact that in the countries where public ownership has been established upon some of the lines and private ownership continued upon others the comparison showed that the public roads gave lower rates and generally compelled the private roads to come down to meet them; thirdly, by the fact that the rates in countries where the roads are publicly owned the rates are lower than in countries where they are privately owned; and fourthly, the fact that in all the measures that have been introduced in this country for the public ownership of the roads distinct provision has been made for the reduction of the rates and, indeed, such a reduction is one of the main objects of the measures.

No one has ever disputed the fact that the change from private to public ownership has always and everywhere resulted in a reduction of rates. Even Mr. Dunn, one of the chief, and perhaps most capable of the defenders of private ownership con-

cedes that "most governments have made reductions in rate soon after nationalization."<sup>1</sup> This fact is verified by the studies of Carl S. Vrooman<sup>2</sup> who estimates that the reductions on passenger rates as the result of public ownership in Switzerland amounted to from 12 to 20 per cent and on freight rates about 10 per cent, that the government roads in Belgium have the lowest rates in the world outside of India and that as in other countries the public roads have led the way in reducing rates. The same conclusion is reached by other students of the subject. Mr. Larabee, in his "Railways Problems," and Todd in his "American and European Railroads," and Cowles in his "General Freight and Passenger Post," show that the rates under government ownership are reduced in some cases to as low as three-fifths of a cent per mile in Germany, France, Austria, and one-tenth of a cent a mile on workingmen's tickets in Belgium. In Italy one can travel 963 miles, and all distances over that, at third class rates for \$7.00, and first class, \$17.33.<sup>3</sup>

And, besides, under government ownership the passenger traffic is handled in a different way. For example, the zone system is quite generally put in operation, and there are offered second, third and even fourth class tickets at greatly reduced rates. Under this system the rate is one cent a mile or less for long distances and runs down to about one-third of a cent a mile. In Austria-Hungary one can travel 457 miles for \$1.60. A similar service in this country would cost \$9.14. The result of this system was to reduce the rates fully 50 per cent and the stimulus to travel was so great the traffic doubled and the receipts increased in spite of the reduction.<sup>4</sup> In Switzerland, the government roads offer tickets, good over the entire railway system of the country, for one month for \$15 second class, and \$11 third class. Tickets good over the entire system for an entire year are sold for \$59 second class, and \$45 third class.

The study of this matter by Florence E. Parker,<sup>5</sup> which is perhaps the most recent, concludes that in France passenger rates were reduced 5.7 per cent in three years, 1907 to 1910, and freight rates 0.8; that in Switzerland government ownership has resulted in a decrease, during 1898 to 1910, of 22.5 per cent in passenger and 5 per cent in freight; in Japan passenger rates

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<sup>1</sup> "Government Ownership of Railways," p. 287.

<sup>2</sup> "American Railway Problem," chapter VII., pp. 185-157.

<sup>3</sup> "American Railway Problems," Vrooman, p. 144.

<sup>4</sup> "Railways, Trusts, etc., p. 375.

<sup>5</sup> "Effect of Railway Nationalization on Wages, Hours and Rates," Monthly Review of U. S. Bureau of Labor Statistics, May, 1918.

increased 4.5 per cent and freight rates decreased 13.3 per cent in two years, 1906 to 1908.

Practically everywhere the change from private to public ownership has resulted in very considerable reduction of rates.

In cases where public ownership has been applied, and certain roads run under private ownership in competition with them, we have the best chance to make comparisons, for in such cases conditions are more nearly the same. And here again public ownership shows lower rates. In France, for example, not only have the freight and passenger rates on the state owned roads been lower than on the private roads operated in competition with them but the state roads have led in such reductions which has generally forced the private roads to reduce their rates.

When we come to compare the rates under public ownership in one country with those under private ownership in another the problem is more difficult and considerable discussion has arisen as to the comparisons. Opponents of public ownership have contended that in some respects at least rates are lower on the private roads in the United States than on the public roads in certain countries in Europe. But even this contention does not hold.

Professor Frank Parsons finds<sup>1</sup> that "both freight and passenger rates are lower in Germany than in England or the United States. The average passenger rate is less than one cent a mile against two cents in the United States, and 2½ cents in Great Britain. Passenger rates in the United States average 2.008 cents per passenger-mile and that includes hundreds of thousands of commuters. Under public ownership in other countries the average rates are as follows: Australia, 1.174 cents; Austria, 1.079; Belgium, 0.75; Denmark, 1.294; Germany, 0.908; Norway, 1.165; Switzerland, 1.28."<sup>2</sup>

Speaking of freight rates, Prof. Parsons says, "There is an impression that freight rates in Germany are much higher than in the United States. This impression has resulted from the comparison of average rates without explanation of what the average rate is." The German freight rate includes express. It also includes large amounts of traffic, which in this country are handled by private fast freight trains. And besides the German roads carry an immense amount of mail and baggage for the parcel post for which they get no pay. The American roads on the other hand receive enormous sums from these sources.

<sup>1</sup> The Arena, March 1907.

<sup>2</sup> "Comparative Railway Statistics U. S. and Foreign Countries," Bureau of Railway Economics, 1913, p. 74. For Belgium see also Encyclopedia of Social Reform, article on Railways, p. 1044.

Therefore, Prof. Parsons concludes, "making allowance for express and mail, freight, etc., the German commissioners, recently in this country, conclude that a proper figure for our average freight rate would be 1.44 cents per ton-mile, while the figure for the Prussian roads would be .95 cents.<sup>1</sup>

The most recent testimony on this subject is found in the hearings before the Joint Committee on Interstate and Foreign Commerce,<sup>2</sup> in November, 1916, and especially in the statement by Smith W. Brookhart representing the Railroad Commission of the State of Iowa. Mr. Brookhart, after reviewing and analyzing the whole situation very carefully concludes, "When all is considered it is found that for the same service the American passenger rate is almost double the German and the freight rate more than 62 per cent higher.

Coming now to a consideration of the measures that have been presented in Congress for the nationalization of the railroads we find that practically all of them provide distinctly for a reduction in rates. In the brief prepared by David J. Lewis and presented by former Senator R. F. Pettigrew in behalf of the public ownership of the railroads<sup>3</sup> it is shown by actual statistics from the Interstate Commerce Commission reports, that it would be quite possible for the railroads to reduce their present fare at least one-half, and yet make as much money as they are making now. His final conclusion, after a most exhaustive argument, is that the American railroads could be operated under government ownership upon a general passenger rate of one cent a mile or even less and yet cover all expenses. It must be understood, however, that such a reduction would only be possible under public ownership and would be possible under that system because of the great economies of which we shall speak presently.

And finally in the Sims Bill which embodies the so-called Plumb Plan of the Railway Brotherhoods and which was introduced in Congress in the summer of 1919 a very unique feature provides for the automatic reduction of the transportation rates to the basis of the cost of the service. We describe this fully in a later chapter.<sup>4</sup>

From whatever angle we look at the subject it appears that public ownership is certain to bring about a reduction of rates.

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<sup>1</sup> "Railways, Trusts, etc." Parsons, p. 339.

<sup>2</sup> Sixty-fourth Congress, First Session, quoted by Walling and Laidler in "State Socialism," pp. 32-339.

<sup>3</sup> Fifty-Sixth Congress, First Session, Document 53.

<sup>4</sup> Chapter VIII, Section 6.

**2. Better Service.**—Practically every authority upon the subject of government roads agrees that the change to public ownership results in an improved service. "The history of European railways," says Mr. Vrooman,<sup>1</sup> "makes clear that whenever a government has purchased a railway from a corporation, it practically always has found it necessary to set to work at once to make important improvements in the service offered to the public."

In Switzerland as soon as the railways had been nationalized the government at once began to make extensive improvements. The same was true in Italy. The government found the railways in such a dilapidated condition that it was necessary to begin at once an expenditure of \$30,000,000 a year to put them into working condition. In Prussia it is said that the government railways are making greater progress than other railways in Europe whether private or public. And this is the situation quite generally.

Under public ownership more and better trains are run. There is greater speed and more reliability. Improvements in road bed, rolling stock; stations and terminal facilities as well as the introduction of technical improvements such as automatic couplers, air brakes, block signals and other safety devices come more promptly under public than under private ownership. The tickets are made in greater variety so as to better serve the convenience of the people. For example, workingmen's tickets are issued which are of great service to the working class, but in addition monthly and even yearly tickets are sold at most surprisingly low rates, which are a great convenience and saving to business and professional men, doctors, and traveling men, as well as the general public. In Germany at one time private car lines supplied all the sleepers, as they do in this country. But now under government ownership the state runs sleeping cars of its own and the service is much improved.

In the matter of public education the policy of the governments is also very liberal. In Germany the school children get 75 per cent off on tickets and can ride on all trains, so that the monthly tickets cost about one-half of a cent a mile. Similar and even greater reductions are offered on the government roads in New Zealand. We even have the splendid example of the government roads carrying excursions of happy children from the crowded cities out into the open country for the enjoyment of a day with nature; and on the other hand bringing the country children into the city for the study of its wonders. What can

<sup>1</sup> "American Railway Problems," p. 121.

be more striking than this splendid policy of the government with regard to the relation of its railroads towards the subject of education? The same use of government railroads is made in Norway and Sweden. Private railroads are not conducted for the service of the people and the advancement of education, but for the private profit of their owners.

In the matter of freight rates the greater serviceableness of government roads is shown in many ways. In the first place it is agreed by all authorities that the vicious discriminations which have been the curse of private ownership are unknown. On the other hand, the tariffs are simple and flexible and are made to serve in every way the needs of commerce more fully than the private roads. In times of drought, special rates are made for the farmers. In times of distress, the roads respond quickly to the social needs. And so in a great many ways the public ownership of railroads serves the needs of the people much more effectively and widely. And this is natural, because under public ownership the railroads are operated primarily for the service of the people, and not as under private ownership for the profit of its owners.

**3. Greater Safety of Travel and Fewer Murderous Railroad Wrecks Under Public Ownership.**—In a previous chapter we have discussed the matter of the danger to life, limb and property in travel under private ownership of railroads.<sup>1</sup> Of all the railroads in the world those of our country are the most destructive, reckless and murderous. During the single year of 1916 over 10,000 people were killed and 196,722 people injured. It is estimated that our railroads in America have killed more than two hundred thousand people and crippled nearly two million more. The private roads here are much worse than the private roads of Great Britain. The latter carry annually 400,000,000 more passengers than the American roads and killed only 166 passengers in 1905; and while the railroads in America killed 10,000 people in 1904, the railroads of Germany which are owned and operated by the government killed on the entire system only 74. Furthermore, while the safety of railway travel has slowly but steadily increased in other countries, it has decreased here in America; while the number of persons killed in proportion to the number of passengers carried, has steadily decreased in other countries, it has steadily increased in America.<sup>2</sup>

The railroads of America under private ownership are seven times as destructive of life and property as are the railroads owned by the government in Austria-Hungary and six times as

<sup>1</sup> Chapter I., Section 2.

<sup>2</sup> Ridgeways, Feb. 9, 1907.

destructive as the government railroads of Germany. One train-man out of every 364 that are employed is killed by the private American railroads in every year, and one out of 22 is injured. "Railroading is more perilous than war, and even more fatal than the most mortal of all wars, the great civil conflict of the sixties."<sup>1</sup> ("Railroad Nationalization," p. 60.)

The safety attained by the German government roads is one of their great achievements. There are more people killed on the private roads every week in America than are killed on the German roads in a year, and this in spite of the fact that there are 200,000,000 more passengers carried on the railroads of Germany than on ours. Our roads killed over six times as many and injured 25 times as many passengers as the Prussian roads.<sup>2</sup>

Prof. Parsons has prepared a careful statement, compiled from the reports of different countries, which shows that "railway travel is safest in Denmark, Norway, Switzerland, Sweden, Belgium, Germany, Austria-Hungary and Australia (all government roads); that it is more dangerous in Great Britain (private) than in any of the above mentioned countries and that in the United States it is most dangerous of all; about 6 times as dangerous as in Germany; 17 times as dangerous as in Belgium, 3 times as dangerous as in France, and 4 times as dangerous as in Great Britain."<sup>3</sup> And in every case the greatest safety is attained in the countries where the railroads are owned and operated by the government; and the number of persons killed in proportion to the number of passengers carried increases exactly in proportion to the degree of private ownership.<sup>4</sup>

Such facts as these put the matter beyond a doubt. The public ownership of railroads results in a much greater degree of safety both for the traveling public and the working class as well.

**4. Public Ownership Would Tend to More Stable Financial Condition in the Country.**—Railroad stocks and bonds constitute about 75 per cent of the material with which the stock jobbers and brokers deal on Wall Street. And this railroad capital fluctuates in stocks anywhere from 30 per cent to 1900 per cent, and in bonds from 5 to 100 per cent each and every year. This fitful and appalling rise and fall in the stocks and bonds of railroads constitutes a very disturbing element in the modern financial world. The manipulation of these things by the stock brokers is often the cause of a demoralization in the country, of panics

<sup>1</sup> "Railroad Nationalization," by David J. Lewis, Senate Document 58, 56th Congress.

<sup>2</sup> "Railways, Trusts, etc.," p. 380.

<sup>3</sup> "Railways, Trusts, etc.," p. 444.

and hard times with all their disastrous effects. Over \$700,000,000 worth of railroad bonds and \$100,000,000 worth of shares of railroad stock are sold on the New York Stock Exchange in a single year. And yet all this enormous railway capital is the subject to the influence of every panic, accident, combination, frown of fortune, and fury of frenzied finance. The terrible panics of 1854-7 and 1873 are by many attributed directly to excessive railroad building and speculation. No less an authority than A. T. Hadley attributes the financial crisis of 1884 to the same cause. The crash of 1866 was largely due to speculation in railway stocks; and the corner of Northern Pacific in 1901 caused a Wall Street panic.

Transportation constitutes the very foundation of modern society. If this is subject to these perilous fluctuations and uncertainties, is it any wonder that our financial world is unstable? Let us suppose now that the government takes over these properties. The private securities would then disappear and in their place would be the government bonds. Government bonds have a constant value. They are not subject to the fluctuations and uncertainties of private securities. They are secure. The interest will be paid—the principal will be met. A great fear and uncertainty is removed.<sup>1</sup> If all the great capital represented by private railway securities were transferred from the field of uncertainty, fluctuation and speculation to the field of certainty and stability would this not have a great effect for good upon the whole financial world?

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<sup>1</sup> See "Railway Nationalization," by David J. Lewis, p. 9.

## CHAPTER VII

### METHODS OF NATIONALIZATION

As to the method of procedure for the nationalization of railroads, a whole volume should be written. And it should involve a careful study of the various methods that have been pursued by the different countries that have established public ownership. The methods are different in the different countries, and there is no doubt that many different devices may be resorted to as a means for accomplishing the desired end.

1. **Purchase of Stock.**—In Germany, the government began by buying stock first in one and then another of the various railway systems, and thus gradually established the government ownership of about seven-eights of the total mileage there. However, the foreign nations have been much more careful in safeguarding their interests in the matter of railway than have our people in America. This makes the provision for public ownership easier. The Prussian law of 1838 established a system of progressive taxation on the net earnings of the railroad companies. All moneys realized from these taxes were to be used by the state in purchasing railway shares. And then all income on such stock must be used for the same purpose and no stock so purchased can again be put on the market. In this way the railroads are made to provide beforehand the money with which to purchase them. The railroads buy themselves out. In this way the transition to public ownership works itself out automatically. In addition to this the government also built and extended the railroads. The transition was gradual. For thirty years private and public roads were operated side by side in competition. And as a result of this experience the government more and more determined that public ownership was the correct policy.

2. **Outright Purchase.**—In Switzerland the method was somewhat different. Anticipating the possibility of national purchase, the government had passed, in 1883 and 1895, a law subjecting the railway companies' accounts to rigid regulation and inspection. This became the basis for the purchase later on. The question of the purchase of the railroads was submitted to a general referendum in 1898, and was carried by an overwhelming majority. The details of the method of purchase were provided for carefully and the government appropriated \$200,000,000 in 1899 for the purchasing of the roads. In accord with the laws previously passed, the government was allowed to take posses-

sion of the roads on giving three years' notice and paying 25 times the average net profits for the ten years preceding the announcement of purchase. Or the government could pay the construction value—whichever method of computation produced the larger sum, deduction being made for any sum necessary to bring the road up to a standard condition. The final sum actually paid for the four railroads now in the government possession was \$186,078,000.<sup>1</sup>

The details for the purchase of the Swiss railroads as well as the whole plan for the administration of the roads were worked out by the Swiss Federal Assembly with the usual thoroughness and exactness that characterizes the administration of the Swiss republic. The text of the law which was passed Oct. 15, 1897 may be found in Vrooman's "American Railway Problems," in the Appendix IV.

In general the methods of securing government ownership have been a gradual purchase of one after another of the systems. In some cases, however, as in Switzerland and Italy, the whole system has been taken over practically at once, and the money appropriated out of the general government funds for this purpose.

**3. Eminent Domain.**—And if the railroads should refuse to sell, the government always has at hand the right of eminent domain—a perfectly legal and constitutional method of forcing sale and one with which the railroads and the public are perfectly familiar.

**4. Building Roads.**—Or again the government may build roads of its own. In some cases this would be natural and advantageous no doubt. The government has built and operated railroads in Panama—why not in the United States? Even the single city of Cincinnati, Ohio, has built and successfully financed a railroad 336 miles long crossing two states outside of Ohio. Surely if Cincinnati, New Zealand and Siam can build railroads the United States of America can.

The experience of Cincinnati is interesting and illuminating. It was built by the city 1869-1879. The city issued bonds and built the road and leases it to a private company. This company pays such rental that it covers all the cost of the bonds interest and all. Under the terms of the lease the company has recently built some \$3,000,000 terminal facilities and a \$750,000 bridge in the city and it turns over a clear profit of \$450,000 to the city annually. In other words by building and owning this railroad

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<sup>1</sup> "Railways, Trusts, etc., p. 362.

the city of Cincinnati has acquired a property now valued at \$40,000,000, is paying for it out of the proceeds it makes and laying aside for the city funds nearly half a million every year in clear profits over and above all expenditures for interest on bonds, sinking funds and all.<sup>1</sup>

**5. Foreclosure.**—In some cases the public ownership of the railroads might be effected by the government foreclosing on mortgages which it holds upon the railway systems. At any rate it has often been suggested. As we have pointed out in a previous chapter 719 different railroads have gone into the hands of receivers in this country and 928 have been sold under foreclosure in the last 38 years.<sup>2</sup>

Such situations would afford splendid opportunities for an alert government bent on public ownership to get possession of railroads. It has been urged that whenever this occurs and a road is taken over by the government, re-organized and put upon a paying basis, that instead of handing it back to private enterprise, it shall be kept. Had this policy been pursued up to the present time, a very large proportion of the total railway mileage of the country would already belong to the government.

It will be seen, therefore, that any of a number of different methods may be used for the establishing of government ownership. A system may be bought outright as proposed by Senator Pettigrew and explained in his argument on the bill before congress.<sup>3</sup> Or the government may follow the method explained by Emil Vandervelde, the scholarly leader of the Social-Democrats in Belgium, which he calls "Interpenetration," that is, the gradual purchase of stock as was done by the German government. Or it may hold those which fall into the hands of the government through the failure of private financing and bankruptcy, or it may foreclose its mortgages upon such roads as are unable to pay. At all events, it is quite practical to provide for the nationalization of railroads by means which will not require a single cent of additional burden upon the people.

Some object to public ownership because they think that the government would have to contract an enormous debt in order to acquire the roads. On the contrary, however, as we have shown, it is possible for the railroads to be nationalized without the increase of taxation, or any additional burdening of the people. They can be made to pay for themselves.

<sup>1</sup> Pamphlet published by the Board of Trustees of the Cincinnati and Southern Railway, Cincinnati, Ohio; also bulletin of the Johns Hopkins University for Jan.-Feb. 1894 on "The Cincinnati Railway."

<sup>2</sup> Statistical Abstract of the U. S., 1917, p. 318.

<sup>3</sup> "Railway Nationalization," Lewis.

It is likely, however, that when the roads are taken over it will be done by the issuing of bonds to provide the funds for the purchase. In that case there will be a considerable public debt incurred. But will that be any disadvantage or burden to the people financially? It will not. On the contrary they will be the gainers thereby for the following reasons:

The roads, as we have shown are now (1919) capitalized at something over \$21,000,000,000. Their actual value, and the value at which, under a just and legal valuation they would be purchased, is somewhere in the neighborhood of \$14,000,000,000. Let us be liberal and throw in an extra billion dollars—a few hundred millions of dollars is not much when we are dealing with the privately owned railways of America—and allow \$15,000,000,000 as the actual value of the roads. Now suppose the government borrowed the \$15,000,000,000 and bought the roads. It would have a new debt of \$15,000,000,000 it is true. And that is a big debt.

But what of it? At 4 per cent the government would have to pay \$600,000,000 in interest per year. But the net earnings of the roads over and above all expenditures for operation are \$1,200,000,000. So the government would be \$600,000,000 to the good on the deal at the end of the first year. Economies effected already under public control indicate that at least \$150,000,000 a year can be cut out of operating expenses which increase the advantage that much more. And besides as we explain elsewhere, under public ownership a part of the earnings are always set aside each year to pay off and retire the debt. Thus year by year the debt grows less and the interest burden grows less until at length, in say 40 to 60 years, the debt is gone entirely and with it the interest burden as well.

Thus public ownership even if a debt of \$15,000,000,000 is incurred would produce at the outset a saving to the government and the people of \$600,000,000 annually and that advantage will grow each year as the debt is retired until at length it will amount to the enormous sum of \$1,200,000,000 every year. And besides the people will own the roads.

If on the other hand we go on under private ownership as at present, what will happen? The roads are capitalized as before at \$21,000,000,000. But in this case the people are compelled to pay rates and accept service and labor must accept wages that will leave a net earning of 6 per cent on the full capitalization of \$21,000,000,000, which means a charge of \$1,200,000,000, and over, which the people must pay in addition to the cost of transportation. That is the price they must pay for the use of the capital.

And that is not the worst of it. Under private ownership that capital account is increasing all the time. It has increased pretty steadily for the last twenty years at the rate of \$650,000,-000 a year. So that the interest burden which under public ownership is steadily decreasing until it disappears entirely, under private ownership is steadily and rapidly increasing so that by the end of another fifty years, if private ownership continues, the people of this nation would be paying tribute that would be appalling. The capital account by that time would amount to over \$50,000,000,000, and the interest charge alone—which of course would be reckoned in as a part of transportation charges—would be not less than \$3,000,000,000 a year. Such a calamity should be avoided at all events. And the debt of a few billion dollars in this case is not a burden but a means of escape for the people.

Is there any other way of escape from this terrible threat of increasing capitalization than through public ownership by whatever means may be reasonably safe and just?

## CHAPTER VIII

### THE PLUMB PLAN—LABOR'S SOLUTION OF THE RAILROAD PROBLEM

Of all the plans proposed for the public ownership of railways, either in this or in other countries, the one brought forward by the fourteen railway brotherhoods is the most concrete and explicit in detail.

This plan was first worked out in detail by Glenn E. Plumb, special attorney of the railway brotherhoods, and was almost immediately adopted by the four "big brotherhoods," as they are called, the Conductors, Engineers, Firemen and Trainmen, and very shortly afterwards by the other ten railway brotherhoods and then by the National Convention of the American Federation of Labor. This "Plumb Plan," as it has come to be known, comes forward, therefore, as the quite generally accepted plan of organized labor, and may be quite fairly accepted as "labor's solution of the railroad problem." Labor organizations representing between 5 and 6 million members are officially committed to the program and stand sponsor for it.

No one, we presume, would claim for the plan that it is perfect or beyond amendment and improvement. Some of the features may prove to be seriously defective and no doubt will be modified. But there are certain fundamental principles that are here set forth for the first time by so large and reliable a body of American citizens that it immediately brings it into the realm of practical possibility.

There are eight main features in the "plan" of the Railroad Brotherhoods which we can outline but briefly in the following paragraphs:

1. **A just and legal valuation.**—The first most vital and fundamental feature of this Plumb Plan of the Railway Brotherhoods is its theory of valuation. It is the cornerstone of the whole plan. For whether it be as a basis for determining rates, or wages, or compensation in case of purchase, the valuation to be placed upon the properties is absolutely fundamental.

The railroad companies claim the right to earn a fair return which is generally conceded to be about 6 per cent on something like \$21,000,000,000. When the employees ask for increased wages the companies resist the demand on the ground that the returns they are receiving are as low as they can possibly be and that any increase in wages would absorb their net earnings and thus reduce the return upon their investment below a "rea-

sonable" rate. On the other hand when the general public puts up a plea for a reduction of rates the companies use the same line of argument claiming their right to earn 6 per cent on their capital investment of \$21,000,000,000. Thus the determination of the actual amount upon which the companies are entitled to earn compensation is absolutely essential. It is this question that the Plumb Plan undertakes to settle first of all.

How, then, do the railway companies arrive at the \$21,000,000,000 as constituting their capital account? By including not only (1) all the money actually invested in the railroad properties, but in addition (2) all investments made out of earnings contributed by the public and not by the investors, (3) all issues of stocks and bonds for which no consideration was paid, (4) all securities issued below par and afterwards raised, and (5) "unearned increment" or increased value of lands held by the companies. This is the theory of valuation developed by Samuel O. Dunn, editor of the *Railway Age*, in his recent book on "Regulation of Railways,"<sup>1</sup> and it is substantially the theory generally supported by the railway owners. Upon this theory they hold that they are entitled to fix rates and wages and limit their service so as to earn a "fair return" on \$21,000,000,000. And upon this theory Mr. Dunn says that "on the whole, the available evidence points to the conclusion that the aggregate valuation of the railroads will equal or exceed their aggregate net capitalization."<sup>2</sup> In other words, on this theory of valuation set up by the railroad owners, there is no overcapitalization. The \$21,000,000,000 is all wool and a yard wide. And therefore, Mr. Dunn concludes, as do the private owners generally, "on this showing it could not be held that the net earnings, or rates generally were excessive."

Now, therefore, it is this theory of valuation first of all that the proponents of the Plumb Plan attack. They examine, first of all, the charters under which the various railway corporations are operating. And they find that "examination of these charters and the limitations under which they are held will disclose, generally speaking, that these charters have not authorized the railroads to capitalize either in stock or bonds any amounts of money other than those which the corporation received as the consideration of such issues."<sup>3</sup>

Next they examine the constitutions and the statutes of the states in which these corporations are operating and they find that "there are at least thirteen states with constitutions and laws which provide in substance 'that no corporation shall issue

<sup>1</sup> "Regulation of Railways" by Samuel O. Dunn. See chapter VII. on "Valuation."

<sup>2</sup> *Idem*, p. 127.

<sup>3</sup> "Labor's Plan, Etc." p. 17.

stocks or bonds except for an equivalent in money paid, or labor done, or property actually received and applied to the purposes for which such corporation was created; and neither labor nor property shall be received in payment of stocks or bonds at a greater value than the market price at the time such labor was done or property delivered; and all fictitious increase of stock or indebtedness shall be void.'

Idaho, Illinois, Missouri, Nebraska, Pennsylvania, South Carolina, South Dakota, Utah, Washington, West Virginia, Wisconsin and Kentucky are some of the states whose laws provide "that all fictitious increase or issue of stock or indebtedness by railroad corporations shall be void."<sup>1</sup>

And, finally, the proponents of the Plumb Plan examine the decisions and principles laid down by the state courts and the Supreme Court of the United States, and they hold that under these decisions and rulings these corporations are "entitled, at the very most, only to a profit on the actual investment." They hold that "investment actually, honestly and prudently made, measures the full extent of the property interests which railway corporations may possess. They are entitled to earn a fair return on such investments, but no more. The public must return to them only the amount of such investment, if the property be taken from them by governmental operation, no more and no less. All values inherent in these properties in excess of such investments are values which were retained for the public and which the public cannot be compelled to buy, because the public is now lawfully—if not actually—possessed of these values."<sup>2</sup>

Thus basing their contention upon the charters of the railroads, upon the statutes and constitutions of the various states and upon the decisions of the courts, state and federal, the proponents of the Plumb Plan hold that when the valuation of these properties shall have been finally arrived at legally and justly it will be found that the basis will be not \$21,000,000,000 (as of 1919) but very much less—probably a third less and possibly a half. It has been variously estimated, as we have indicated in a previous chapter,<sup>3</sup> that the fictitious values in the capitalization of the railroads amounts to from one third to one half. Whatever it is, the Plumb Plan proposes that the amount shall be determined justly, truly and legally; and when so determined it becomes the basis—the foundation upon which the "plan" rests.

<sup>1</sup> "Why Private Ownership Cannot Meet the Demands of the Public," by Lawrence B. Finn, Chairman Kentucky Railroad Commission, p. 62. See also "Labor's Plan, etc." pp. 17-18.

<sup>2</sup> "Labor's Plan, etc., " by Glenn E. Plumb, pp. 28-29.

<sup>3</sup> Chapter I., sec. 5.

It is obvious that the procedure would squeeze the water out of the railroads' stocks and bonds and that the owners would not earn as much, and in case of the government taking over the roads they would not get as much for their securities as they are claiming they are worth. It is being objected in some quarters that as many of those who hold these securities were innocent investors who purchased them in good faith it would be a great injustice not to pay them the full face value of their securities and especially so as many of these investors are "poor widows and orphans."

In reply it is urged that there is no reason why the Government should make good to a certain few their bad investments in railway securities at the expense of all the rest of the people any more than it should make good poor investments in other lines. Also, as Mr. Plumb has pointed out, the holders of railway securities have faced a steady and constant decline in market values for the last six years and the end is not yet.<sup>1</sup> So that the value of these securities are shrinking anyway. It may be that the government purchase of the railway securities will save the owners from a worse calamity before the process is ended.

And so far as the "widows and orphans" are concerned, it is sufficient to note that, according to a recent report of the Interstate Commerce Commission, less than 2 per cent of the railway securities held by the twenty largest stockholders in all the larger railroads is owned by women. And presumably not all of them are "widows"—and not all are "poor." The same report also discloses the fact that \$1,681,242,374 of these securities are held by life insurance companies, \$444,000,000 are owned by banks, railroad companies themselves own \$2,135,086,517, leaving a balance of about seven and a half billion dollars owned by the general public.<sup>2</sup> It is evident that the "widow and orphan" cry is a false alarm, used to create sympathy for those who seek thereby to detract attention from the main and the real consideration. If there be some real and deserving who would suffer from a real valuation of these properties they might well be compensated in some especial way in order that justice to the whole people and the nation at large might be done.

**2. Public Ownership.**—The second essential feature of the Plumb Plan is public ownership. Having determined the actual, fair and legal value of the railway properties by the regularly established methods above described, the government, acting for the people of the United States, is to take them over.

<sup>1</sup> "Labor's Plan, etc.", p. 31.

<sup>2</sup> Unpublished Memorandum of the Interstate Commerce Commission, March 25, 1919.

The government is to pay for the properties. It is to pay the actual and legally determined value—no more. No more can be justly claimed or reasonably expected.

It is proposed that the government should issue bonds or other securities to be exchanged for the present private securities allowing for the latter the amount previously determined. Or congress could appropriate a sufficient amount—about 5 billion dollars—to purchase all the stocks at present market values, the stocks representing the controlling equity in the properties. The bonds representing the remaining private investment could then be taken care of by the exchange for government bonds or otherwise.

For the supervising of the purchase the plan provides for a Purchasing Board composed of the Interstate Commerce Commission and three directors of the new government corporation, one director from each of the three groups represented on the Board of Control.

The plan thus provides definitely and in specific detail for the full and complete public ownership of the railways.

**3. Cooperative Operation.**—The plan for the operation of the roads is a form of co-partnership. A corporation is to be formed for the sole purpose of operating the properties having no capital and no financial investment or property interest in the roads. The general public will have its interest in the operation of the roads represented by one third of the board of directors. The management which will have to do with the executive and directing function in the actual operation of the roads will be represented by one third of the board of directors; and, finally, the operating force representing all the employes in the classified list, the actual workers, will also be represented by one-third of the board of directors. Thus the actual operation of the properties will be a co-partnership in which the public, the management and the workers have an equal interest.

This plan will put both the management and operation of the roads in the hands of those whose life's experience and training have best qualified them for the task. This affords the best possible guarantee of efficiency. It also removes the whole matter of operation from the field of politics and thus obviates one of the most common objections to public ownership.

**4. Democratic Control.**—In the matter of control this plan introduces a new and very important feature. It gives labor a voice in the control of the industry. The plan provides that the corporation formed to operate the railroads shall have a board of directors of fifteen. Five of this board shall be appointed by the

President of the United States to represent the general public; five shall be elected by the managing officials representing general management; and five shall be elected by the employees within the classified list. Thus for the first time in the history of the nation, this plan, if adopted, will give labor a voice and a vote in the control of a great basic industry.

This is the new word in the world of today—democracy in industry, a voice to labor in the control of economic and industrial conditions. It is quite generally agreed too, we believe, by progressive thinkers in all classes. But in applying the principle, it seems to the writer, the Plumb Plan as at present projected, gives too large a proportion of the managing board to the employes. By giving the management one-third of the board of control, and the workers one-third the employes combined have a two-thirds control of the industry. We believe that the workers should have a voice in the management, but we are not prepared to say that they should have control of the industry.

Mr. Plumb has an answer to this objection. He argues that his measure gives the management twice the rate of dividends that the operators are to receive which operates as an economic motive against their acting with the operators against the general public. We are unable to see that the management will work out in this way. Others also friendly to the measure urge that this feature should be so modified that the public should be given at least an equal if not a slightly larger number of members on the board of control.

However these are details. Important as they are they should not obscure the great fundamental principle here set up and for the first time advocated by an organization of such nature and sufficient strength as to command the attention of the President, Congress and the people of the United States. For in this plan we have the first serious attempt being made to apply the principle of giving labor a voice in the control of an important industry.

**5. Profit Sharing.**—Under the Plumb Plan the profits arising from the operation of the roads is to be divided, one half to the government as owner, and one half to the employees to be divided among them in proportion to their wages or salaries. The portion that goes to the government will be available either for the reduction of rates, for extension and improvement of the system or the retirement of the bonded indebtedness. The portion of the profits that goes to the employees as a dividend or bonus in addition to their wages will act as a powerful incentive to every employee and official to do his best. Thus the hope of

an increased reward and the sharing in the success of the enterprise is offered as an additional assurance of efficient operation.

"Under the old system of private ownership and operation," says Plumb,<sup>1</sup> "the hope of increased returns actuated only those individuals, employed in the service, who might reasonably be expected to share in those returns. All other employees were merely actuated by fear that they might lose their jobs, or might face an actual or relative decrease in wages. Fear is the poorest incentive on which to build efficiency or economy. Hope is the strongest incentive to achieve these results. Fear is the incentive of slaves, hope the inspiration of free men. I would extend this inspiration to every employee from the chief executive of the organization to its humblest servant. I would have each one assured that he must reap his fair share of what was produced by the efficiency and economy of all, and have him realize that unless he performed his full share in preserving efficiency and economy, he must inevitably receive a less return for his services. Such an organization would promote a morale among employees that has never been approached in any industrial enterprise. It would supplant the old system of competition under which the profits of the laborer's industry went to another, and in which he could never hope to share, by a new system where the profit of his industry accrued to himself alone, where all employees were united by a common purpose, all working toward a common end, inspired by the same motives, by the same incentives, and with no opportunity for a division of interest, and no apprehension that another would reap what he had sown."

**6. Automatic reduction of rates.**—Public ownership will make it possible to reduce the cost of transportation. No other plan has ever been proposed that will. The Plumb Plan offers a specific method and an automatic arrangement by which the cost of transportation will be progressively reduced until it reaches the basis of the actual cost of the service.

The measure provides that "whenever the net profits received by the government shall exceed 5 per cent of the gross operating revenues, the Interstate Commerce Commission shall immediately reduce the rates so as to absorb the excess profits." This can best be illustrated by way of example: Assuming that the capital invested amounted to \$18,000,000,000 approximately—the amount of the book entry called "property investment account"—if the fixed charges on this amount were four per cent per annum it would be \$720,000,000. Assuming that the

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<sup>1</sup> "Labor's Plan, etc.," by Plumb, pp. 8-9.

gross operating revenue were \$4,000,000,000, and the ratio of operating expense to gross operating revenue was seventy per cent, the net operating revenue would be \$1,200,000,000. Subtract from this the fixed charges of \$720,000,000, you would have remaining \$500,000,000, which should be divided between the government and the corporation half-and-half, labor receiving \$250,000,000, for a dividend on the pay roll, the government receiving \$250,000,000 as its share of the net revenue. The government's share, \$250,000,000, would be in excess of five per cent of the gross operating revenue.<sup>1</sup> The Interstate Commerce Commission would therefore proceed to reduce freight and passenger rates for the ensuing year so as to absorb the excess.

That reductions of rates would follow the adoption of this plan and that they would continue to recur until the charges reached the basis of the cost of the service is certain for the following reasons: (1) As we show elsewhere, the economies possible under public ownership and a completely unified operation will amount to millions of dollars per year. These economies will reduce the fixed charges and thus operate to reduce rates under this plan. (2) The lower rates of interest at which the government can borrow money will effect a saving of some \$400,000,000 a year.<sup>2</sup> Assuming a capital account of \$20,000,000,000 a saving of 2 per cent in interest charges would amount to \$400,000,000 per year. (3) And, finally, under public ownership as is always the case, the capital account as represented by the bonded indebtedness would gradually be paid off and retired until at last, within 35 or 40 years, it would be entirely gone, and thus the whole interest charge eliminated. This would mean, on a basis of a \$20,000,000,000 capital account, and a 6 per cent rate of return as at present under private ownership, an ultimate, annual saving of \$1,200,000,000, a considerable portion of which would be available for the reduction of rates.

Under public ownership of public utilities the capital account is always gradually retired in this way. But under private ownership not only is the capital account never tired but it steadily and rapidly increases every year. And as it increases the interest burden increases with it and to meet it the rates must be increased. During the last ten years—1906 to 1916—the capital account of the railroads has increased at the rate of \$650,000,000 a year. It was \$14,570,421,478 in 1906. By 1916 it had reached \$21,092,372,245.<sup>3</sup> If this goes on, what will hap-

<sup>1</sup> "Labor's Plan for Government Ownership and Democracy in the Operation of Railways," by Glenn E. Plumb. Pamphlet No. 1, by the Plumb Plan League, p. 15.

<sup>2</sup> "Labor's Plan, etc.," by Plumb, p. 29.

<sup>3</sup> U. S. Statistical Abstract for 1917, p. 392.

pen at the end of another fifty years? Thus under private ownership the interest burden which the cost of transportation must bear is increasing by nearly \$40,000,000 every year. Under public ownership it would not only be \$400,000,000 a year less to begin with—due to the lower rates of interest which the government would have to pay—but it would be gradually reduced every year until at the end of the term for which the bonds were issued it would be eliminated entirely.

These sums mentioned above as economies which are possible under public ownership are enormous. It is certain therefore that under the Brotherhoods' Plan transportation rates will be reduced.

But there is still another feature of the plan that will operate to reduce rates. It is so well explained by Mr. Plumb in his statement that we quote his words:<sup>1</sup> "Every reduction in rates will induce an improvement in industrial activities and tend to promote a greater volume of traffic, which in turn is reflected by an increase in the volume of the net earnings, although it may not produce a corresponding increase in the percentage of net earnings. The operation of this automatic system would soon reduce the level of rates to a point where the net revenue would not exceed the requirements of the service and where the surplus net revenue not absorbed by rate reduction should be available either for extension or improvements, with no increase in fixed charges which in turn would tend to increase the volume of net revenue and thereby produce a further reduction in rates; or diminish the outstanding capital, again reducing the amount of fixed charges, which in turn would tend to increase the net revenue so as to produce further reductions in rates.

"The ultimate effect of such a program would be the complete retirement of all capital and the reduction of rates to the lowest point essential to paying the cost of operation."

This feature of the Plumb Plan is of great significance. It means certain reduction of rates in a basic industry of the nation, one that effects every other, and to such an extent that a reduction here is certain to make possible a reduction of charges everywhere else. It therefore lays the sure foundation for a reduction in the cost of living and the consequent rise in the general standard of living as well as other far-reaching economic changes. At this point, therefore, the plan is of profound interest to the general public.

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<sup>1</sup> "Labor's Plan, etc." by Plumb, pp. 15-16.

**7. Extension under local control by special assessments.**—The "plan" provides for local control of the matter of extensions of the lines and for the raising of the funds on the basis of special assessments. This takes another phase of the problem out of the political field. It is provided that when extensions of the lines are proposed or needed the necessary funds may be raised partly by funds supplied by the government and partly by special assessments levied by the local community against the property benefited by the extension. In this way adequate funds for such extensions are assured and the property benefited would bear a share of the cost as it naturally should.

Under this plan if a certain territory desired an extension and was willing to tax itself for the full cost of construction, that the obligation on the part of the federal government to supply such extension would be imperative. If the territory particularly interested did not desire to assume the entire cost but would assume a portion of the cost, then, the building of such extension would be discretionary. There might arise a particular occasion where the public welfare might require the building of an extension through territory which would receive no benefit therefrom. In that case, the total cost of construction should fall upon the public for whose benefit the extension was made. Of course, any expenditure made for extension out of funds provided by taxation could not be capitalized, nor could payments for extensions or improvements made out of operating revenues be capitalized.<sup>1</sup>

**8. Boards for Adjustment of Wage Disputes and Determination of Wages, Hours and Conditions of Labor.**—The bill provides that the Board of Directors "shall create by negotiation with the employes through their duly elected and authorized representatives not less than three Boards of Adjustment," and a fourth body which it designates as "a Central Board of Wages and Working Conditions." In each case these boards are to be made up of members, "one-half of whom shall be selected by and from the classified employes and the other half by and from the official employes. The three Boards of Adjustment "shall hear and determine all controversies growing out of the interpretation of established wage rates, awards, working rules, etc. The Central Board of Wages and Working Conditions has as its duty "to hear, investigate and determine matters respecting the broad questions of salaries, wages, hours and other conditions of employment." In each case the decisions of

<sup>1</sup> "Labor's Plan, Etc., by Plumb, p. 6.

these boards are to be "final, except that where no majority decision can be obtained, an appeal shall lie to the Board of Directors."

This would appear to put the matter of fixing wages, hours and conditions of labor wholly in the control of the employes or practically so. The only exception would be in case of a tie on the Central Board, a situation that would not be likely to happen very often. The public or representatives of the public on the general Board of Directors would have no representatives on these boards.

Taken as a whole, the outstanding features and general principles of the "plan" are excellent. Public ownership, a just and fair valuation, a voice to labor in the management, a share to labor in the profits of the enterprise—all these are good. In some respects, however, the plan is undoubtedly defective and objectionable in its present form from the standpoint of a truly democratic industrial adjustment. In these respects it will undoubtedly be modified until it becomes a really practical, acceptable and workable plan for securing the "public" ownership, democratic control and efficient operation of the railways of the nation.

## CHAPTER IX

## PUBLIC OWNERSHIP AND DEMOCRACY

The public ownership of a basic public utility such as the railroads is but a logical and necessary extension of democracy. For, in the process of social evolution, democracy assumes new forms and functions; and with the rise of the new problems of reconstruction facing the world in the post war period, it is everywhere agreed that democracy must function not only in the political but in the industrial and economic field as well. The application of its principles in the ownership, control and operation of the transportation system of the nation comes, therefore, as a logical and necessary part of the struggle for democracy.

Certain objections to this extension of democracy arise from two opposite directions, those who fear that it is too much democracy and those who fear it is too little. The former object to the public ownership of railroads because they fear that our government is so weak and inefficient and so easily corrupted that any further extension of its functions would be sure to result disastrously not only to the railroads but to the government as well. On the other hand, there are those who fear the public ownership of railroads lest thereby a more or less autocratic and militaristic control be established and some of the liberties now enjoyed be lost.

Both dangers exist. Both must be met by certain well balanced safeguards of democracy.

1. **Efficient Government.**—To those who object to public ownership because of the weakness and inefficiency of our forms of government it must be pointed out that during the last decade or two in America, as well as elsewhere throughout the world, great changes have been made in the direction both of greater democracy and greater efficiency in government. The development of civil service reform, which puts more and more of our public employes upon a strict merit basis and thus steadily crowds out the spoils system; the rapid extension and adoption of direct legislation through the initiative and referendum—twenty-two states now having these laws; the growth of the commission form of government and the "short ballot;" and, finally, the coming of proportional representation which is little known and less understood in this country but which is, we believe, even more important than either the initiative or referendum as a means for securing efficient and democratic government—

all these measures and movements are bringing about a very great development in efficiency and democracy in government and thus preparing the way for successful public ownership.

Moreover, it should be remembered that in every country in the world, not excepting our own, we have now had a very large experience in the public ownership of such utilities as railroads, and as a matter of fact the evils of political corruption and disaster so persistently predicted have not materialized. On the contrary the extension of the functions of government in these respects have served to increase the dignity and importance of civic life and thereby tended to develop the integrity and efficiency of the government. It is a general principle, well established by wide experience in these matters all over the world, that where the governmental functions have been extended, either in the direction of the ownership of national utilities such as the railroads and telegraph, express, telephone, etc., or the municipal ownership of city utilities, there, all authorities agree, the evil effects predicted have not resulted.

If the public ownership of public utilities would ever produce political corruption, graft and inefficiency it would do it in German and English cities for in those countries the cities own nearly all public utilities. As a matter of fact, however, the German and next to them the English cities are the best governed and best administered cities in the world. It is precisely in those cities in which the principle of municipal ownership is most widely in operation that there is less corruption and graft than in American cities where we have comparatively little public ownership. And the same is true of the countries where government ownership has been widely extended, there is less political corruption than in America.

At all events both democracy and efficiency in government are absolute pre-requisites to successful public ownership. Popular control or public ownership of the government should precede, or at least accompany the public ownership of a great public utility such as the railroads. For if the government were controlled by corporate, private interests, those interests might easily unload their properties upon the government at exorbitant prices and thus continue to draw vast sums of interest or millions or even billions of fictitious values. They might also with equal impunity exact extortionate rates, treat labor harshly and render inferior service.

It is this that must be avoided and will be avoided by the increasing democracy and efficiency of government that we are seeing develop everywhere.

We believe that our faith in democracy and the adaptability of the American form of government to still greater degrees of democracy and efficiency is justified by the experience of recent years. But we also believe that every advocate of public ownership should devote his utmost energies to all measures and movements that make for greater democracy and efficiency in government in order that the public ownership we undertake shall be properly safeguarded in these respects.

But with these facts in view, we believe, the objection disappears, and that the time is now ripe and the nation prepared to proceed with the nationalization of the railroads.

**2. Democratic Control.**—Turning now to the other objection to public ownership that arises from the fear of an autocratic and semi-militaristic control under public ownership it must be admitted that there is danger in that direction also. And being forewarned we shall be forearmed in guarding against the evil.

Organized labor particularly has been afraid of public ownership at this particular point. The experience with autocratic and often militaristic control of publicly owned railroads in foreign countries where the rights of citizenship have in some cases been restricted and where strikes have been forbidden and, when started, ruthlessly crushed are the cause of this fear. The same tendency manifested itself in at least one instance here in this country when Director General McAdoo issued his famous order prohibiting all railway employees from taking part in any form of political action, an order against which the railway brotherhoods most vehemently protested.

The danger therefore does exist. It also must be met and the principles of democracy fully and completely guaranteed in the form of public ownership we establish. In other words our public ownership must be a democratic public ownership and not an autocratic public ownership. And in order to secure such democratic public ownership three things are absolutely essential:

1. The forms of government must be increasingly democratized as explained above so that the government itself shall be democratic and not susceptible to control by autocratic influences or interests.

2. The full rights of citizenship must be guaranteed to every employee. The disfranchisement of the workers under government ownership as is proposed in some quarters, or even the restriction of the franchise is entirely inconsistent with democracy and therefore subversive not only of the interests of

labor but of the welfare of society as a whole. Such measures if proposed must be resisted without compromise.

At this point we wish to correct an impression that exists in some quarters to the effect that the railway employees of the German railroads are disfranchised. That is not the case. They are as free to vote as other working men and do vote in both state and municipal elections.<sup>1</sup>

3. The right of collective bargaining, the right of the workers to organize and present their grievances must also be fully recognized and maintained. In this connection it is gratifying to note that in the most democratic forms of government labor has received the most considerate treatment. Even in Germany the form of management of the government railroads is very democratic. The workers "are given a share in the management of the roads through their right to help elect the representatives who finally determine the policy of the railways and the condition of the railway service."<sup>2</sup>

4. And, finally, and most essential of all, labor must be given a voice in the management and control of the industry. This is the new note that has been struck in the world of today and rises with insistent crescendo everywhere. Progressive thinkers have long insisted upon it. The Society of the Nationalization of Railways in England have long had it in its program. The recently formed Plumb Plan League of the American Railway Brotherhoods have embodied it in their "plan" and it is rapidly becoming a universal demand of labor and a very generally conceded principle on the part of the captains of industry, Presidents and Parliaments.

As to just what degree of control the workers shall have and just how that control shall be exercised are matters that may require much discussion and experimentation before the proper adjustment is reached, but the principle is fundamental and certain to be incorporated in any plan of public ownership that is to be satisfactory and permanent.

With the principles of democracy outlined above safeguarded in the present plans for public ownership, the ordinary objections most commonly urged against it disappear, and the movement becomes an inspiring struggle in behalf of the general welfare, the first cautious adventure in industrial democracy for the fulfillment of the American ideal in commerce and industry.

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<sup>1</sup> "Railways, Trusts and the People," p. 327.

<sup>2</sup> "Railways, Trusts and the People," p. 349.

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